

**BOE FY 2014/15 BUDGET CHANGE PROPOSALS DOF DECISIONS**  
(as of 08/27/2013 - in 000s)

Budget Items		2014/15				2015/16			
BCPs	Positions	Total Cost	Revenue		Benefit/ Cost Ratio	Positions	Total Cost	Revenue	Benefit/ Cost Ratio
Lumber Products Assessment	6.0	\$684 SF: \$684	\$30,000	/a	N/A	6.0	\$575 SF: \$575	\$30,000	/a N/A
Tax Gap II	6.5	\$1,175 GF: \$767 R: \$408	\$10,000		8.6:1	6.5	\$1,104 GF: \$721 R: \$383	\$10,000	9.2:1
Intrusion Detection/Intrusion Prevention System - Information Security	6.0	\$852 GF: \$556 R: \$296	\$3,000-\$5,000	/b	5.9:1	6.0	\$759 GF: \$496 R: \$263	\$3,000-\$5,000	/b 6.6:1
Managed Care Organization Tax	1.25	\$235 SF: \$235	\$360,000		1,532:1	1.25	\$168 SF: \$168	\$360,000	2,143:1
<b>TOTAL</b>	<b>19.75</b>	<b>\$ 2,946</b>	<b>\$ 405,000</b>		<b>-</b>	<b>19.75</b>	<b>\$ 2,606</b>	<b>\$ 405,000</b>	<b>-</b>

/a The positions requested are part of the program. The \$30M revenue is total program revenue.

/b \$3-5 million protected revenue annually. Final total calculated using \$5 million

**STATE BOARD OF EQUALIZATION**



BOARD APPROVED

At the 9/10/13 Board Meeting  
Joann Richmond for  
 Joann Richmond, Chief  
 Board Proceedings Division

GF: General Fund  
 SF: Special Fund  
 R: Reimbursement  
 FF: Federal Fund

Item P5.2  
 09/10/13

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 03/13)

Fiscal Year 2014-15	BCP No.	Org. Code 0860	Department State Board of Equalization	Priority No.
Program Sales and Use Tax			Element	Component N/A

Proposal Title  
 LUMBER PRODUCTS ASSESSMENT

Proposal Summary  
 The Board of Equalization (BOE) requests \$684,000 (Special Funds) to convert 4.0 expiring limited-term positions to permanent and add 2.0 new permanent positions in FY 2014-15 and \$575,000 (Special Funds) in FY 2015-16 and ongoing and for the BOE to administer the Lumber Products Assessment.

Approval of these positions will ensure the continued revenue stream of approximately \$30 million annually.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR      Project No.      Date:		

If proposal affects another department, does other department concur with proposal?   ☐ Yes      ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

**Department of Finance Use Only**

Additional Review: ☐ Capital Outlay   ☐ ITCU   ☐ FSCU   ☐ OSAE   ☐ CALSTARS   ☐ Technology Agency

BCP Type:      ☐ Policy      ☐ Workload Budget per Government Code 13308.05

PPBA      Date submitted to the Legislature

**STATE BOARD OF EQUALIZATION**  
**Sales and Use Tax Program**  
**Lumber Products Assessment**  
**Fiscal Year 2014-15**

**A. Proposal Summary**

The Board of Equalization (BOE) requests \$684,000 (Special Funds) to convert 4.0 expiring limited-term positions to permanent and add 2.0 new permanent positions in FY 2014-15 and \$575,000 (Special Funds) in FY 2015-16 and ongoing for the BOE to administer the Lumber Products Assessment.

Approval of these positions will ensure the continued revenue stream of approximately \$30 million annually.

**B. Background/History**

Originally, the fee was considered a tax imposed upon the retailer pursuant to the draft language in AB 1492. On August 7, 2012 the language of AB 1492 was amended, whereby a Public Resource Code provision was added to impose a one percent assessment. Rather than imposing the tax on the retailer (similar to the existing sales and use tax program), this assessment is imposed on the purchaser for the storage, use or other consumption of lumber products in California. Retailers are required to collect this assessment from the purchaser and remit directly to the BOE. Additional language was added to the final draft of the bill that allows a retailer to retain an amount determined by the BOE associated with one-time startup costs to collect and remit the assessment. This resulted in additional workload not addressed in the BOE's original request for funding. AB 1492 was Chaptered September 11, 2012.

The BOE is statutorily mandated to administer the Sales and Use Tax Program. Implementation of the new Lumber Products Assessment imposed upon the consumer of lumber products and collected by the retailer required the BOE to program the Integrated Revenue Information System (IRIS) mid-tier and web applications to accommodate changes to the various returns, revenue, audit, and accounting subsystems. Additional programming was also necessary to allow retailers to retain an amount for reimbursement of their start-up costs. The Lumber Products Assessment is filed electronically with the retailer's sales and use tax return and as such, requires an increase in costs due to additional Information Technology (IT) programming. The BOE received \$1.92 million for FY 2012-13; \$2.31 million for FY 2013-14, \$1.81 million for FY 2014-15 and \$1.69 million ongoing to fund this implementation in the FY 2012-13 Budget Act based on original draft language. AB 1492 was later amended and has created additional workload not addressed in the original proposal. The BOE requested 4.0 positions for the technology workload that was associated with the legislation. This proposal was submitted to the Department of Finance (DOF), but was not approved. The DOF instructed the BOE to redirect positions to address the IT workload associated with this project.

The BOE requests to convert 4.0 limited-term positions set to expire June 2014 to permanent and to add 2.0 new permanent positions to provide high quality services to the fee payers that are required to register, collect, report, pay the additional fee, as well as to assist with the increase in communications between the fee payers and the BOE.

**C. State Level Considerations**

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In FY 2010-11, the BOE administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund the specific programs. More than one million businesses are registered with the agency.

This proposal is consistent with the BOE's mission to serve the public through fair, effective and efficient tax administration. Specifically, this proposal allows the BOE to maintain and administer the Lumber Fee Assessment program. This proposal is consistent with, and supports, the BOE's strategic plan by maximizing voluntary compliance, investing in a skilled, motivated and diverse workforce, and enhancing the BOE's operational effectiveness.

#### **D. Justification**

Pursuant to the amendments to AB 1492, the Public Resources Code provisions impose a one percent Lumber Products Assessment upon the purchaser of lumber products, and requires the assessment due to be collected by the retailer upon the sale of the lumber product to the purchaser. The retailer is permitted to be reimbursed for the one-time startup costs that the retailer incurs to collect this Lumber Products Assessment.

The draft bill language the BOE utilized for identifying program costs would have imposed an additional sales tax upon retailers of lumber products, which would have been administered under the existing administrative provisions of the Sales and Use Tax Law. The chaptered bill language instead imposed an assessment on the purchaser which is administered pursuant to the Fee Collection Procedures Law. Due to the administration under a different law, the new assessment creates a new liability for the retailer that must be legally differentiated from the sales tax. Although both the sales tax and the new assessment are reported on the same return in an attempt to minimize costs and simplify reporting for retailers, the BOE is encountering complications in separating two distinct liabilities that are reported together. These complications occur when the taxpayer does not pay the liability in full, files a delinquent return, or amounts are assessed in an audit.

The BOE is requesting permanent establishment of 4.0 positions expiring June 2014 to continue workload that was expected to be one-time. The workload has proven to be an ongoing workload that includes maintaining and updating webpages and publications, maintaining and corresponding with the Board of Forestry, ongoing responses to taxpayers and tax professional's telephone and written questions and inquiries, and generating lumber fee reports and analyses (i.e. revenue, registration, audits, collections, refunds, etc.) It is likely that these taxpayers will not fully understand the complexity of identifying specifically what lumber products are included and which are excluded from the definition of lumber products.

Due to technology limitations and the complexity of administering the Lumber Products Assessment Program coupled with the existing Sales and Use Tax Program, the positions in the Return Analysis Unit and Local Revenue Allocation Unit are necessary to ensure accurate and timely allocation of lumber and sales and use tax revenues. The workload associated with these positions consists of taxpayer education, revenue allocation, and payment maintenance and billing. As a result, the 4.0 positions are requested to be established on a permanent basis. In addition, the 1.0 Office Technician is required for the Computer Audit Specialist Section (CASS), to accomplish clerical duties so that CASS audit staff can focus on evaluating and examining the taxpayer's digital records for its audit sampling.

In order to handle the increase in call volumes the Customer Service Center (CSC) originally requested 2.0 Tax Technician II limited-term positions. However, due the complexity of the new assessment, during the first two filing periods the staff answering these calls required more assistance due to the difficulty of the calls. This increase in assistance impacted our internal Customer Service Center Hotline, where staff needing assistance increase by over 100 percent. In order to handle the increase in calls CSC is requesting 1.0 Tax Technician II and 1.0 Business Taxes Representative on a permanent basis.

Due to the unknown number of retailers that may be impacted by this bill, the BOE originally anticipated approximately 60,000 feepayers may be required to register, collect, and remit this new Lumber Products Assessment imposed upon purchasers of lumber products. Many of these retailers were automatically registered as sellers of lumber products as their type of business indicated the strong likelihood that they sell lumber products subject to the assessment. This allowed for these retailers to properly report the

assessment. Others retailers were identified as possible sellers of lumber products and were asked to notify the BOE if they sell lumber products subject to the assessment. Due to this unknown nature of certain retailers, the BOE has experienced significant workload associated with registering taxpayers that were not previously registered and unregistering retailers that were automatically registered as a retailer of lumber products. Currently, there are approximately 30,000 fee payers that are registered to report the lumber products assessment that have not reported any amounts collected from consumers.

Determination of which products are subject to the assessment and which products are not subject to the assessment is the responsibility of the Board of Forestry and Fire Protection. Therefore, the BOE lacks any control over the changing nature of the products subject to the assessment. The changing classification of products subject to the assessment was anticipated to occur only once per year. However, the Board of Forestry and Fire Protection has already made two separate changes to classification of specific products in the first six months of the program. The frequency of changes to the classification of products is expected to continue at a rate more frequently than initially anticipated, especially when the BOE begins conducting audits of fee payers and more questions come up regarding the classification of specific products. Each time the Board of Forestry and Fire Protection changes the classification of products subject to the assessment, the BOE must prepare materials for retailers of lumber products to notify them of the change. The changing classification of products subject to the assessment will also have a significant impact on staff time needed to address questions from retailers and consumers in addition to processing of returns and claims for refunds associated with the assessment on items that have changed classification.

#### **E. Outcomes and Accountability**

<b>Projected Outcomes</b>			
<b>Workload Measure</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Estimated Revenue	\$ 30 million	\$ 30 million	\$ 30 million

Utilizing California's 12 percent share of the U.S. population and applying a typical retail margin, it is estimated California's lumber sales were likely \$7.0 billion in 2007. With the economic downturn from 2007 through 2012, housing permits in California declined by approximately 50 percent. Assuming that lumber sales declined parallel to the decline in housing permits, it is estimated that lumber sales in California for 2012 were approximately \$3.5 billion. Applying the one percent lumber fee assessment to the \$3.5 billion, it is estimated the revenues would be approximately \$35 million. Therefore, after the estimated cost reimbursements of \$5 million are applied, which also take into account for a possible increase in the amount of reimbursement, the net estimated revenues are \$30 million.

#### **F. Analysis of All Feasible Alternatives**

**Alternative 1 - The Board of Equalization (BOE) requests \$684,000 to convert 4.0 limited-term positions, set to expire June 30, 2014 to permanent status and to add 2.0 new permanent positions in FY 2014-15 and \$575,000 in FY 2015-16 and ongoing for the BOE to administer the Lumber Products Assessment.**

##### **Pros:**

- Provides the resources needed to timely and efficiently administer the statutorily mandated Lumber Products Assessment.
- Provides the highest level of service to the fee payers.
- Provides the necessary resources to properly remit the correct amount of the Lumber Products Assessment.
- Provides funding to adequately protect the Timber Regulation and Forest Restoration Fund.

- Provides the ability for the BOE to update the list of products that are subject to the Lumber Assessment as determined by the Board of Forestry, as well as notifying fee payers timely of the changes.

**Cons:**

- Requires a budget augmentation.

**Alternative 2 – Provide funding to extend the existing 4.0 limited-term positions for an additional three years and to add a new 2.0 3-year limited-term positions for three years. Funding will be \$684,000 in FY 2014-15, and \$575,000 in FY 2015-16 and FY 2016-17.**

**Pros:**

- Addresses the immediate need for additional resources required to handle workload associated with the Lumber Products Assessment.
- Temporarily provides the highest level of services to fee payers.
- Temporarily provides funding to protect the Timber Regulation and Forest Restoration Fund.

**Cons:**

- The Lumber Products Assessment is permanent, but under this alternative some of the resources to administer the program are limited-term.
- Provides temporary funding for the protection of the Timber Regulation and Forest Restoration Fund by ensuring compliance with the law.
- Increases expenditures from the Timber Regulation and Forest Restoration Fund.
- Does not provide the necessary resources to properly remit the correct amount of the Lumber Products Assessment.

**Alternative 3 - Do not approve this request.**

**Pros:**

- Does not require a budget augmentation.

**Cons:**

- Does not provide retailers and purchasers of lumber products the necessary resources to properly remit the correct amount of Lumber Products Assessment.
- Does not guarantee that the Timber Regulation and Forest Restoration fund will be adequately protected.
- Expected revenues will be delayed and force redirection of other resources for which will result in lost revenue for an extended period if adequate resources are not provided.

## **G. Implementation Plan**

July 2014 through June 30, 2015 and on-going

- Hire and train new staff.
- Maintain and update web pages and publications.
- Continue to identify and notify affected taxpayers.
- Answer taxpayer inquiries.
- Process incoming tax returns.
- Issue determinations for delinquent returns.
- Process claims for refunds.
- Follow up on leads and perform routine audits.
- Audit selected taxpayers and issue deficiency and refund determinations related to the lumber fee assessment.

**H. Supplemental Information** *(Check box(es) below and provide additional descriptions.)*

☒ None    ☐ Facility/Capital Costs    ☐ Equipment    ☐ Contracts    ☐ Other

**I. Recommendation**

**Alternative 1 is recommended.**

This alternative allows the BOE to meet its statutory obligation to efficiently administer the Lumber Products Assessment.

DRAFT

## Workload Detail for Lumber Products Assessment

### EXTERNAL AFFAIRS DEPARTMENT

#### Customer Service Center Section

As a result of this legislation the CSC estimates an additional 24,000 calls from both the tax/fee payers and consumers annually and 20,000 ongoing calls for each year thereafter. In order to handle the increase in call volumes the CSC originally requested 2.0 Tax Technician II limited-term positions. However, due to the complexity of the new assessment, during the first two filing periods the staff answering these calls required more assistance due to the difficulty of the calls. This increase in assistance impacted our internal Customer Service Center Hotline, where staff needing assistance increased by over 100 percent. In order to handle the increase in calls CSC is requesting 1.0 Tax Technician II and 1.0 Business Taxes Representative on a permanent basis.

#### **1.0 Tax Technician II - Conversion of Limited-Term to Permanent**

This position will be utilized to answer approximately 10,000 calls a year from tax/fee payers needing assistance with filing and paying their lumber tax assessment returns. In addition they will provide account maintenance and answer general questions concerning the tax/fee.

Workload Detail				
		Time Measure		Ongoing Activities
Classification	Activity	M = Minutes H = Hours	Occurrences Per Year	Total Hours
Tax Technician II	Answer taxpayer and public inquiries received on the BOE toll free 800 phone number concerning the new program and the application of tax.	4.5 M	12,000	1,780
	Process account maintenance requests.	6 M	150	30
	Total Tax Technician II Hours			1,810
	Total Tax Technician II Positions Needed (1,800 Hours/Position)			1.01



### 1.0 Business Taxes Representative – New Permanent Position

This position will provide tax technician and remote agent training to call center staff answering calls from tax and fee payers needing assistance with filing/paying their lumber tax assessment returns. In addition they will respond to approximately 3,000 of the more complex calls/report of referrals and 7,000 tax and fee payer calls received on the main toll free BOE 800 line.

Workload Detail				
		Time Measure		Ongoing Activities
Classification	Activity	M = Minutes H = Hours	Occurrences Per Year	Total Hours
Business Tax Representative	Provide staff with answers to the more complex questions and issues from tax/fee payer concerning the new program and the application of tax.	12 M	3,000	600
	Answer taxpayer and public inquiries received on the BOE toll free 800 phone number concerning the new program and the application of tax.	9.6 M	7,000	1,120
	Process difficult account maintenance requests.	12 M	150	30
	Training to Tax Technicians	20 H	4	80
	Total Business Taxes Representative Hours			1830
	Total Business Taxes Representative Positions Needed (1,800 Hours/Position)			1.0

## **SALES AND USE TAX DEPARTMENT (SUTD)**

### **Headquarters Operations Division (HOD)**

HOD in the SUTD is responsible for the Return Analysis Unit and Computer Audit Specialist Section.

### **Computer Audit Specialist Section**

The CASS is a revenue producing section. CASS consists of 20 computer audit specialists, which are comprised of 16 Business Taxes Specialist II positions and four Business Taxes Specialist I positions. The CASS provides technical support to the field audit staff by evaluating the taxpayer's operations, determining the availability and complexity of the taxpayer's records, CASS examine, verify and extract accounting detail from the taxpayer's digital records so that a representative sample of the taxpayer's records can be extracted and then examined by a BOE auditor. The auditor reviews the records to determine whether the correct amount of the Lumber Fee Assessment was correctly and accurately reported by the taxpayer.

### 1.0 Office Technician – New Permanent Position

An Office Technician (OT) performs typical clerical revenue supporting functions related to the audit and compliance programs including the Lumber Fee Assessment. These clerical functions include filing, copying answering phones, attendance coordination, maintaining personnel files, preparing miscellaneous recurring reports, and receiving and distributing mail. This position is requested to assist the CASS staff in completing the necessary clerical duties, so that CASS staff can concentrate on verification of the Lumber Fee Assessments reported and credits claimed by taxpayers. Without the OT available to perform the clerical duties created by the administration of the Lumber Fee Assessment (i.e. verification of time reports from staff, copying, answering phones, etc.), the time will be expended completing those duties and not utilized towards electronically gathering and verifying electronic records of those taxpayers collecting and reporting the Lumber Fee Assessment. Thus the proper verification of reported and claimed amounts will be forfeited because the time expended to perform the evaluation functions will be utilized doing clerical functions.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H=Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Office Technician	Provide administrative support for CASS employees.	H			1,800
	Total Office Technician Hours				1,800
	Total Office Technician Positions Requested (1,800Hours/Position)				1.0

### **Return Analysis Unit (RAU)**

#### **2.0 Business Taxes Representative (BTR) – Conversion of Limited-Term to Permanent**

The BTRs perform desk reviews of returns with errors or questionable returns with amounts or missing amounts with respect to the new tax/fee. BTRs make contact directly with the taxpayers to resolve the issue, and issue Notices of Determinations to assess additional tax due. It was originally anticipated that after the two-year limited term period had passed since the inception of the new tax/fee that the work required of these BTRs would no longer be necessary. However, due to the frequently changing of products subject to the assessment, taxpayers will continue to make errors on returns or file claims for refunds. Therefore, the workload associated with this new assessment will require permanent staff to administer.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Business Taxes Representative	Analyze returns and make necessary taxpayer contact.	H	0.25	7,500	1,875
	Replies and follow up actions	H	0.25	7,500	1,875
	Total Business Taxes Representative hours				3,750
	Total Business Taxes Representative Positions Requested (1,800 Hours/Position)				2.08

### 1.0 Tax Auditor (TA) – Conversion of Limited-Term to Permanent

Although the new tax/fee is not a local tax per se, the tax is enigmatic because it only applies to some taxpayers registered with the BOE for sales and use tax purposes. As such, there are likely to be issues with those taxpayers' returns, which could impede upon the accurate and timely distribution of local and district taxes. The TA analyzes and bills accounts for district taxes and amended returns, reviews allocation assignments of subordinate staff, analyzes and processes complex district tax and local tax questionable reallocations on accounts. It was originally anticipated that after two years of inception of the new tax/fee most of the issues that require the additional examination of returns would diminish and this position would no longer be necessary. However, due to the frequently changing of products subject to the assessment, taxpayers will continue to make errors on returns or file claims for refunds. Therefore, the workload associated with this new assessment will require one permanent staff to administer.

Workload Detail					
		Time Measure		On-going Activities	
Classification	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Tax Auditor	Analyze and bill accounts for district taxes and amended returns. Review the allocation of assignments distributed to subordinate staff. Analyze and process district tax and local tax questionable reallocations on accounts.	H	2.75	655	1801.25
	Total Tax Auditor hours				1800
	Total Tax Auditor Positions Requested (1,800 Hours/Position)				1.0

**Fiscal Summary**

(Dollars in thousands)

BCP No.	Proposal Title				Program		
	<b>Lumber Products Assessment</b>				<b>Sales and Use Tax</b>		
<b>Personal Services</b>	<b>Positions</b>			<b>Dollars</b>			
	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>	
Total Salaries and Wages <sup>1</sup>	0.0	6.0	6.0		\$263	\$263	
Total Staff Benefits <sup>2</sup>					\$119	\$119	
<b>Distributed Administration</b>					\$50	\$42	
<b>Total Personal Services</b>	0.0	6.0	6.0		\$432	\$424	
<b>Operating Expenses and Equipment</b>							
General Expense					\$91	\$16	
Distributed Administration					\$12	\$10	
Printing							
Communications					\$8	\$5	
Postage							
Travel-In State							
Travel-Out of State							
Training					\$5	\$5	
Facilities Operations					\$68	\$68	
Utilities					\$1	\$1	
Consulting & Professional Services: Interdepartmental <sup>3</sup>							
Consulting & Professional Services: External <sup>3</sup>							
Data Center Services					\$15	\$15	
Information Technology					\$52	\$31	
Equipment <sup>3</sup>							
Other/Special Items of Expense: <sup>4</sup>							
<b>Total Operating Expenses and Equipment</b>					\$252	\$151	
<b>Total State Operations Expenditures</b>					\$684	\$575	
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund	0860	001	0001				
Special Funds <sup>5</sup>	0860	001	3212		\$684	\$575	
Federal Funds							
Other Funds (Specify)							
Reimbursements	0860	001	0995				
<b>Total Local Assistance Expenditures</b>							
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund							
Special Funds <sup>5</sup>							
Federal Funds							
Other Funds (Specify)							
Reimbursements							
<b>Grand Total, State Operations and Local Assistance</b>					\$684	\$575	

<sup>1</sup> Itemize positions by classification on the Personal Services Detail worksheet.<sup>2</sup> Provide benefit detail on the Personal Services Detail worksheet.<sup>3</sup> Provide list on the Supplemental Information worksheet.<sup>4</sup> Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.<sup>5</sup> Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

(Whole dollars)

<sup>1</sup> Use standard abbreviations per the Salaries and Wages Supplement. Show any effective date or limited-term expiration date in parentheses if the position is not proposed for a full year or is not permanent, e.g. (exp 6-30-13) or (eff 1-1-13)  
**Note: Information provided should appear in the same format as it would on the Changes in Authorized**  
<sup>2</sup> If multiple programs require positions, please include a subheading under the classification section to identify positions  
<sup>3</sup> Totals must be rounded to the nearest thousand dollars before posting to the Fiscal Summary.

## (Dollars in thousands)

<sup>2</sup> Total must tie to "various" funds identified for Local Assistance, Special Funds in the Fiscal Summary.

STATE OF CALIFORNIA  
Budget Change Proposal - Cover Sheet  
DF-46 (REV 03/13)

Fiscal Year 2014-15	BCP No.	Org. Code 0860	Department State Board of Equalization	Priority No.
Program Sales and Use Tax			Element All	Component N/A

Proposal Title  
TAX GAP II

Proposal Summary

The Board of Equalization (BOE) requests \$1,175,000 (\$767,000 General Fund (GF) and \$408,000 Reimbursements) in Fiscal Year (FY) 2014-15 and \$1,104,000 (\$721,000 General Fund and \$383,000 Reimbursements) in FY 2015-16 to convert 3.5 limited-term positions to permanent and add 3.0 new permanent positions for the BOE to continue to address California's estimated \$2.3 billion sales and use tax gap through continuing outreach efforts.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Technology Agency

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA

Date submitted to the Legislature

**STATE BOARD OF EQUALIZATION**  
**Sales and Use Tax Program**  
**Tax Gap II**  
**Fiscal Year 2014-15**

**A. Proposal Summary**

The Board of Equalization (BOE) requests \$1,175,000 (\$767,000 GF and \$408,000 Reimbursements) in Fiscal Year (FY) 2014-15 and \$1,104,000 (\$721,000 General Fund and \$383,000 Reimbursements) in FY 2015-16 to convert 3.5 limited-term positions to permanent and add 3.0 new permanent positions for the BOE to continue to address California's estimated \$2.3 billion sales and use tax gap through continuing outreach efforts.

**B. Background/History**

California's tax system is based on the premise that each taxpayer will correctly determine the amount of taxes owed and remit the taxes to the BOE. Voluntary compliance is the most effective and efficient method of collecting tax and is improved by demonstrating that tax administration is fair, equitable, and committed to ensuring compliance. As such, in 2007, the Sales and Use Tax Department began to concentrate efforts on addressing the sales and use tax gap and encouraging voluntary compliance. A Tax Gap Plan (BCP #2 FY 2008-09) for fiscal years 2008-09 to 2010-11 was approved and several initiatives were implemented.

The initial plan took a comprehensive approach to improve compliance on taxes owed in three main areas: 1) Use tax, 2) Unpaid taxes related to non-filers, and 3) Evaders, and registered taxpayers. The plan specifically focused on education and outreach, use tax related to instate service businesses, audit and collection program improvements, expanded bankruptcy, and out-of-state collection efforts. Not only did these efforts impact the taxpayers addressed, the measures likely caused behavioral changes to taxpayers not directly impacted, resulting in an increased voluntary compliance.

Staff evaluated by use of metrics, the success of these initiatives and, using that information, drafted additional initiatives that are more conducive to a changing economic environment. The additional initiatives were included in the Tax Gap II Plan for FY 2012-13 to 2014-15. One of the components of the Tax Gap II plan consisted of use tax educational outreach. The BOE received 5.5 two-year limited-term positions in FY 2012-13 for the purpose of conducting use tax educational outreach to increase voluntary use tax compliance. As part of the original 5.5 positions, 2.0 were located in the BOE's CSC to answer incoming phone calls. The CSC continues to offer assistance and support to the Tax Gap II efforts. It is estimated that Tax Gap II initiatives created a 4 percent increase in call volume or approximately 24,000 additional calls a year. Callers needing bilingual assistance in Spanish increased during this period as well by approximately 7,000 calls. In addition, in order to handle the increase in complex calls the BOE call center staff needed additional assistance from compliance staff with a higher level of expertise. The CSC implemented a dedicated line to assist the BOE staff with these complex tax and fee payer inquiries. This dedicated line, known as the Customer Service Center Hotline (CSCH), answered over 42,000 calls in the FY 2012-2013. Approximately 1,700 of those calls were associated with Tax Gap II customers needing assistance. In order to handle the increase in calls related to Tax Gap II, the CSC is requesting a permanent a Business Taxes Administrator I (BTA I) and a Business Tax Compliance Specialist (BTCS).

Staff continues to conduct numerous activities, such as educational seminars and presentations that are related to education and outreach for use tax. These efforts have been very successful. For the past two calendar years of 2011 and 2012, assuming an average statewide tax rate of 8.0 percent, total amounts of use tax reported on line 2 of the *Sales and Use Tax Return* were \$1.40B and \$1.49B, respectively, as shown in the table below. This is an increase of use tax reported on line 2 of the *Sales and Use Tax Return* of \$90 million, a portion of which is due to education and outreach efforts conducted by the BOE staff.



	Calendar Year	
	2011	2012
Amount of Use Tax Reported and Paid	\$1.40 Billion	\$1.49 Billion

In 2006 the Board implemented a pro bono tax clinic known as the Tax Appeals Assistance Program (TAAP), which provides free legal assistance for tax and fee payers (with liabilities less than \$20,000 in tax) when filing an appeal. The TAAP furthers the intent of the Taxpayers' Bill of Rights by ensuring that low income and/or underrepresented taxpayers receive the assistance necessary to present all relevant information pertaining to the taxpayer's liability, thereby assisting the Board in determining the correct tax liability. The program consists of five law schools (University of the Pacific McGeorge School of Law, the Loyola Law School at Los Angeles, the Chapman University School of Law in Orange, the Golden Gate University School of Law in San Francisco, and the University of San Diego School of Law in San Diego) which are overseen by two tax counsels that assist law students who are assigned taxpayer appeal cases. In September of 2009 services were provided to assist individual's appealing the BOE consumer use tax billings. With the increased awareness regarding use tax and the Board efforts to close the Tax Gap, TAAP has seen an increase of taxpayers requesting legal assistance.

TAAP is an innovative way for state government to resolve administrative tax appeals. In addition to resolving taxpayer appeals, TAAP achieves considerable "cost avoidance." Cost avoidance is realized when cases are resolved without a formal Board hearing. An analysis performed in 2006-2007 determined the average yearly costs of administering the TAAP is fully offset by its cost avoidance benefits once 138 cases have been resolved without the costs associated with preparing and administering Board hearings. For each case that is resolved without a formal hearing the cost avoidance savings is approximately \$2,800. TAAP resolved 237 cases under appeal without a formal Board hearing, which equates to an approximate savings to the state of \$277,200 for FY of 2011-12.

### **C. State Level Considerations**

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. In FY 2010-11, the BOE-administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs. More than one million businesses are registered with the agency.

This proposal, in part, addresses the Legislature's intent to reduce the \$2.3 billion sales and use tax gap and complements the Legislature's efforts in dealing with tax issues arising from internet sales. This proposal supports the BOE's strategic plan by maximizing voluntary compliance with, and improving the efficiency of the BOE's programs.

### **D. Justification**

While California's sales tax generally applies to the sale of merchandise, use tax applies to the use, storage, or other consumption of those same kinds of items in the state. Generally, if sales tax would apply when you buy physical merchandise in California, use tax applies when you make a similar purchase without tax from a business located outside the state.

There is over \$1 billion in use tax that is not reported or paid to the state each year due to the fact that most Californians are unaware of the use tax laws (see Attachment I Revenue Estimate). While Assembly Bill 155 expanded the definition of out-of-state retailers engaged in business in California and required to collect use tax, it did not require all out-of-state retailers engaged in business in California to collect the use tax from California consumers and remit it to the state, nor did it affect those taxpayers who are already registered with the BOE who make purchases subject to use tax. Furthermore, while the lookup table

allows taxpayers to utilize their income to compute their use tax liability via the income tax return, it does not reach taxpayers selling merchandise who make purchases subject to use tax; it only applies to consumers who purchase one or more single nonbusiness purchases of individual items of tangible personal property each with a sales price of less than \$1,000. To maximize the use tax voluntary compliance, the BOE requested and received 5.5 limited-term positions to conduct use tax education and outreach to ensure that taxpayers understand their use tax reporting obligations and are provided the tools necessary to comply.

Use tax education and outreach efforts included the following:

Action	Result
Targeted mailing of letters to high income earners that had not reported use tax.	Additional use tax reported of over \$3 million.
Mailing to approximately 86,000 tax practitioners reminding them of use tax obligations and how to use the new look-up table. Mailing occurs two times per year.	Resulted in an increased call volume of approximately 24,000 calls per year for assistance.
Working with Franchise Tax Board (FTB) on the use tax look up table instructions.	Through calendar year 2011 the BOE has consistently seen an approximate 10 percent increase of reporting use tax on the FTB's income tax return. In calendar year 2012 the reported amounts increased by 103 percent. The BOE attributes this dramatic increase to both the outreach efforts to promote voluntary compliance related to use tax and to the use of the lookup table.
Created a total of 12 industry specific web pages with use tax information such as <i>American Indian Tribal Issues</i> and <i>Construction Contractors Industry Guide</i> .	The BOE has had over 1,000 hits on these pages and is currently working on redirecting the location of these pages on its website so that the pages are more easily identifiable.
Created over 220 new and improved educational seminars and presentations to speak to a wide array of business industries.	Presentations attended by over 50,000 taxpayers.
Issued four news releases, initiated or responded to 98 media contacts, and tracked 478 news stories in FY 12-13.	Widespread use tax education and outreach shared with the public.
Created 10 new publications, as well as updated existing publications, and over 100,000 mailers to targeted taxpayers.	
Working with 157 city business license office and 14 county officials on use tax materials they can share with local businesses.	
Developed two use tax educational videos, and the BOE staff is currently working on a third.	

The number of new seller's permits issued each year is approximately 200,000. If the BOE does not convert the 3.5 limited-term staff to permanent status and add the 3.0 new permanent staff, the efforts to continue to inform the new seller's permit holders and the public each year of their use tax obligation(s) will result in declining revenues due to taxpayer turnover. With 200,000 new accounts each year, the BOE has 200,000 new taxpayers every year that must be educated about use tax. Therefore, it is imperative that the BOE continue with its outreach efforts to educate and change the behavior of purchasers, so that society as a whole conforms to a more voluntary compliant group of taxpayers.

Attachment II provides an outline of proposed outreach projects targeted at industries that require education and outreach. Without reaching out to these industries the state's tax gap issue of non-reporting of use tax will likely continue.

As more taxpayers become familiar with use tax the probability of questions will increase overtime regarding: What is use tax? What if I don't pay? What if I don't agree with the assessment? When taxpayers don't respond to board efforts to report and pay use tax an assessment may be in order based on what is believed to be owned. If a taxpayer believes that an assessment is incorrect or they don't owe it the taxpayer has the right to file an appeal in order to dispute the billing.

As our outreach efforts increase, in order to bring awareness to taxpayers on use tax, the probability of more taxpayers filing an appeal will go up when they are disputing the assessment. Without the requested resource for TAAP, the current backlog and unresolved cases will increase. The inability to settle cases in a timely fashion may cause delays in revenue coming to the General Fund and various special fee programs. This proposal also allows the diversion of more cases from the formal Board hearing process, which in turn results in significant cost avoidance to the state.

#### **E. Outcomes and Accountability**

This proposal addresses additional education and outreach for use tax. The outcome of this proposal will be measured by increases in use tax reporting on the sales and use tax return by registered businesses, qualified purchasers, and individual consumers reporting use tax on their income tax return. We must continue and maintain our outreach efforts to inform the public about use tax otherwise the state's revenues will decline.

Since the inception of use tax reporting on the Franchise Tax Board's (FTB) income tax return in 2003, the BOE has continually seen an increase of approximately 10 percent reporting of use tax as a result of the education and outreach efforts informing taxpayers of the ability to report use tax on the FTB return. Use tax reported on line 2 of the *Sales and Use Tax Return* increased by \$90 million from calendar years 2011 and 2012. With the same education and outreach efforts emphasized towards registered businesses to report use tax on their sales and use tax return, the BOE anticipates receiving at a minimum an increase of 10 percent as well. Applying that 10 percent increase to those registered taxpayers self-reporting their use tax, the BOE can expect revenue each year of approximately \$9 million (\$90 million x 10 percent). Furthermore, with the BOE's continued efforts to reach high income earners, the BOE anticipates it will obtain revenue of approximately \$1.0 million each year. Therefore, the BOE anticipates the revenues derived from the education and outreach efforts to be approximately \$10 million annually.

#### **Projected Outcomes**

<b>Workload Measure</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Estimated Revenue from Use Tax Education and Outreach	\$10 million	\$10 million	\$10 million

#### **F. Analysis of All Feasible Alternatives**

**Alternative 1** – Provide funding of \$1,175,000 to convert 3.5 limited term positions to permanent and add 3.0 new permanent positions effective FY 2014-15 and \$1,104,000 in FY 2015-16 and ongoing.

##### **Pros:**

- Provides taxpayers and the general public quality information and education on use tax laws and reporting requirements.
- Enhances enforcement efforts of existing laws.
- Generates revenue of approximately \$10 million in FY 2014-15 and ongoing.

- Encourages taxpayer voluntary compliance due to increased awareness of the use tax program through education and outreach.

**Cons:**

- Requires a budget augmentation of \$1,175,000 in FY 2014-15 and \$1,104,000 in FY 2015-16 and ongoing.

**Alternative 2** – Provide funding of \$1,175,000 in FY 2014-15 and \$1,104,000 in 2015-16 and ongoing to extend the 3.5 limited term positions for an additional three years and add 3.0 new three-year limited term positions.

**Pros:**

- Provides taxpayers and the general public quality information and education on use tax laws and reporting requirements.
- Enhances enforcement efforts of existing laws.
- Generates revenue of approximately \$10 million in FY 2014-15, FY 2015-16 and FY 2016-17.
- Encourages taxpayer voluntary compliance due to increased awareness of the use tax program through education and outreach.

**Cons:**

- Requires a budget augmentation of \$1,175,000 in FY 2014-15, \$1,104,000 in FY 2015-16 and FY 2016-17.

**Alternative 3** – Deny this request

**Pros:**

- Does not require a budget augmentation.

**Cons:**

- Does not provide taxpayers with continuing education on the use tax laws.
- Does not result in revenue of approximately \$10 million in FY 2014-15 and ongoing to close the tax gap because without the continued efforts to remind taxpayers of their obligation to report and pay use tax the revenues will decline.

**G. Implementation Plan**

July 2014 and ongoing – continue to provide education and outreach regarding the application of use tax.

**H. Supplemental Information**

☒ None    ☐ Facility/Capital Costs    ☐ Equipment    ☐ Contracts    ☐ Other

**I. Recommendation**

**Alternative 1 is recommended.** This alternative will allow the BOE to continue to address the tax gap in the area of use tax and continue to generate revenue of approximately \$10 million annually.

## Workload Detail for Tax Gap II

### EXTERNAL AFFAIRS

#### Outreach Services Division (OSD)

#### 2.0 Business Taxes Specialist I (BTS I) – Conversion of Limited Term to Permanent

The BOE is committed to helping all California businesses and individuals comply with the state's complex and changing tax laws. The Outreach Division is responsible for developing regional outreach plans to meet taxpayer needs in each Equalization District. The statewide regional outreach goal is to increase voluntary compliance by maximizing the effectiveness of outreach within the four equalization districts in the most effective and cost efficient manner.

The BOE Outreach Services Division has developed a comprehensive statewide outreach and education program to address compliance by both business and tax practitioners (tax attorneys and tax preparers), and to clarify any confusion about sales and use tax responsibility.

The mission of the program is to:

1. Create or strengthen cooperative local and regional partnerships with federal, state and local governments, and the various regional stakeholder groups that interact with the BOE, including, but not limited to, economic development agencies, business trade associations, nonprofits, and tax preparers.
2. Collaborate with our partners to identify industry specific or regional compliance barriers and create targeted educational opportunities that will promote and encourage voluntary taxpayer compliance.
3. Deliver key messages from statewide outreach campaigns to regional stakeholders.

Education and outreach activities in FY 2012-13 focused on helping taxpayers understand the complex and changing tax laws related to the following:

- Helping taxpayers understand use tax.
- Educating taxpayers about permit/license and filing requirements.
  - When do I need a permit or license? How do I eReg?
  - How do I file and pay my taxes to the BOE?
- Helping taxpayers understand what is taxable.

Because of the ongoing success of the Tax Gap II effort, OSD requests the two BTS I positions previously identified as limited term be converted to permanent, in order to continue and sustain the ongoing outreach activities and provide an enhanced level of service to public.

Workload Detail				
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Outreach annual work plan	H	160	1	160
External stakeholders database development	H	110	4	440
Survey creation, compilation, analysis, report	H	10	12	120
Stakeholder meeting and event participation	H	24	50	1,200
Pre-workshop planning (logistics, publicity)	H	22	65	1,430
Conducting workshops	H	4	65	260
Total Business Taxes Specialist I hours				3,610
Total Business Taxes Specialist I Positions Requested (1,800 Hours/Position)				2.0

### **Customer Service Center (CSC):**

The CSC located in Sacramento and in Culver City offers assistance and support to the Tax Gap II efforts. It is estimated that Tax Gap II initiatives created a 4 percent increase in call volume, or approximately 24,000 additional calls a year. Callers needing bilingual assistance in Spanish increased during this period as well by approximately 7,000 calls. In addition, in order to handle the increase in complex calls the BOE call center staff needed additional assistance from compliance staff with a higher level of expertise. The CSC implemented a dedicated line to assist the BOE staff with these complex tax and fee payer inquiries. This dedicated line, known as the Customer Service Center Hotline (CSCH), answered over 42,000 calls in the FY 2012-2013. Approximately 1,700 of those calls were associated with Tax Gap II customers needing assistance. In order to handle the increase in calls related to Tax Gap II, the CSC is requesting a permanent Business Taxes Administrator I (BTA I) and a Business Tax Compliance Specialist (BTCS).

#### **1.0 Business Taxes Administrator I (Permanent, F/T)**

With the increase workload in the Sacramento/Culver City call centers, a BTA I is needed. This position will manage, plan and organize the Call Center staff in their daily activities to optimize efficiencies. This will include creating and recommending tax program policies and procedures that focus on the taxpayer and CSC staff. This position will regularly monitor the CSC management reports to ensure efficiencies are being met. The BTA I will also ensure CSC customer service levels are being met on a daily basis.

<b>Workload Detail</b>			
<b>Classification: Business Taxes Administrator I (BTA I)</b>	<b>Time Measure</b>		<b>On-going Activities</b>
<b>Activity</b>	<b>M = Measure H = Hours</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Manages CSC operations. Plan, organize, direct, distribute and evaluate the work of call center staff.	H		720
Evaluate service and performance levels. Develop and implement effective performance measures. Direct and communicate priorities to multidisciplinary staff.	H		540
Prepares and reviews statistical information to evaluate staff performance and recommend changes for improvement. Plans, organizes and directs all personnel actions and issues for CSC, including selection, promotions, probationary reports, IDP's and guidance to staff.	H		360
Serves as a backup to the Staff Services Manager II (SSM II) and other staff as needed. Performs other duties as required.	H		180
Total Business Taxes Administrator I hours			1800
Total 1 Business Taxes Administrator I position needed. (1,800 Hours/Position)			<b>1.0</b>

## 1.0 Business Taxes Compliance Specialist (Permanent, F/T)

A BTCS will be needed to develop, schedule and provide training/mentoring to the technical staff concerning the increased complexity of calls related to the Tax Gap II efforts. The position will be located in our Culver City office where the bulk of our Spanish speaking staff is located. The BTCS will coordinate the bilingual staff training and track calls being received on our Spanish line to improve services and efficiencies for our Spanish speaking customers. This position will also be utilized to monitor and evaluate staff ensuring the information staff provides is accurate and concise. The BTCS will also develop research and provide various complex management reports related the Tax Gap II efforts. The BTCS will back up the BTA I.

Workload Detail			
Classification: Business Taxes Compliance Specialist (BTCS)	Time Measure		On-going Activities
Activity	M = Measure H = Hours	Occurrences Per Year	Total Hours
Trains the technical and journey level compliance staff.	H		1080
Represents CSC in a variety of meetings and projects. Provides statistical analysis and reporting of complex data. Advisory services to technical staff. Responds to taxpayer internet email inquiries. Prepares and reviews statistical information to evaluate staff performance and recommends changes for improvement.	H		450
Serves as a backup to the Business Taxes Administrator I.	H		180
Other duties, as required.	H		90
Total Business Taxes Compliance Specialist hours			1800
Total Business Taxes Compliance Specialist positions needed (1,800 Hours/Position)			<b>1.0</b>

## SALES AND USE TAX DEPARTMENT (SUTD)

### Data Analysis Section (DAS)

## 0.5 Business Taxes Specialist I (BTS I) – Conversion of Limited Term to Permanent

This position compiles and reconciles relevant data into databases for use with the use tax educational outreach. Information will be utilized for different programs depending upon the type of data sought and received. The DAS staff person is a critical supporting function for a vast majority of the outreach efforts.

Workload Detail				
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Identify useful data sources for identifying potential consumers with purchases subject to use tax.	H	20	20	400
Data match to the BOE's current data sources to provide educational leads.	H	20	20	400
Reporting activities related to program performance and compliance.	H	10	20	200
Total Business Taxes Specialist I hours				1,000
Total Business Taxes Specialist I Positions Requested (1,800 Hours/Position)				<b>0.5</b>

## **Audit and Information Section (AIS)**

### **1.0 Business Taxes Specialist I – Conversion of Limited Term to Permanent**

The BTS I in AIS acts as a liaison between the External Affairs Department and the Tax Policy Division with respect to the technical aspects of the application of use tax and the implementation and administration of use tax programs.

<b>Workload Detail</b>				
<b>Classification: Business Taxes Specialist I (BTS I)</b>	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Implement and administer programs and policies, including the coordination of efforts with other departments and divisions.	H	45	20	900
Draft publications, notices, and guidance to staff.	H	40	9	360
Prepare technical responses to inquiries from tax professionals and the general public.	H	8	45	360
Resolve issues with the different district offices and headquarters sections.	H	10	18	180
Total Business Taxes Specialist I hours				1,800
Total Business Taxes Specialist I Positions Requested (1,800 Hours/Position)				<b>1.0</b>

### **Executive – Taxpayers’ Rights Advocate Office (TRAO)**

#### **Tax Appeals Assistance Program (TAAP)**

In January of 2006 the Board implemented a pro bono tax clinic known as the Tax Appeals Assistance Program (TAAP), developed by the Taxpayers’ Rights Advocate Office (TRAO), with the support of the Appeals Division of the Legal Department (Appeals). The program furthers the legislative goals of the Taxpayers’ Bill of Rights by insuring that low income and/or under representative taxpayers receive the assistance necessary to present all relevant information pertaining to the taxpayer’s liability, thereby assisting the Board in performing its duty of determining the correct liability. The program currently consists of five law schools strategically located throughout California in order to provide assistance to taxpayers. TAAP is an innovative way for state government to resolve administrative tax appeals at the lowest level and has been considered a model for other states. In addition, to resolving taxpayer cases, TAAP achieves “cost avoidance” by resolving cases without having to have a formal Board hearing. The increased awareness of TAAP has maximized resources and reached its limit in order to provide quality services to taxpayers and individuals that qualify for the program. In January of 2014, TAAP will offer legal assistance for individuals held responsible for personal liability.



## 1.0 Tax Counsel III (TC III)

The Tax Counsel III position is responsible for overseeing the day to day operations of the TAAP. The attorney services in the role of an externship professor at each law school overseeing the daily work of law students. The attorney provides on campus instructions to the law students on the relevant substantive laws and the procedural rules governing the appeals process with the BOE. On-going guidance and supervision is provided to law students as they represent the clinic's clients and if a hearing is necessary, accompanies them as they appear before the Board.

The table below provides the estimated workload for these positions.

Workload Justification				
Classification: Tax Counsel III (TC III)	Time Measure		On-going Activities	
Activity	M = Measure H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Class instruction at universities.	H	3.5	120	420
Travel.	H	.5	120	60
Pre instruction preparation for class.	H	35	2	70
Research, writing, and preparation for appeals presentation.	H	25	50	1250
Total Tax Counsel III hours	1800			1800
Total Tax Counsel III position requested (1,800 Hours/Position)				1.0

**Fiscal Summary**

(Dollars in thousands)

BCP No.	Proposal Title <b>Tax Gap II</b>			Program <b>SUTD</b>		
<b>Personal Services</b>	<b>Positions</b>			<b>Dollars</b>		
	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>
Total Salaries and Wages <sup>1</sup>	0.0	6.5	6.5		\$490	\$490
Total Staff Benefits <sup>2</sup>					\$223	\$223
<b>Distributed Administration</b>					\$97	\$92
<b>Total Personal Services</b>	0.0	6.5	6.5		\$810	\$805
<b>Operating Expenses and Equipment</b>						
General Expense					\$67	\$27
Distributed Administration					\$24	\$23
Printing						
Communications					\$11	\$11
Postage						
Travel-In State					\$73	\$73
Travel-Out of State						
Training					\$7	\$7
Facilities Operations					\$127	\$102
Utilities					\$2	\$2
Consulting & Professional Services: Interdepartmental <sup>3</sup>						
Consulting & Professional Services: External <sup>3</sup>						
Data Center Services					\$23	\$23
Information Technology					\$31	\$31
Equipment <sup>3</sup>						
Other/Special Items of Expense: <sup>4</sup>						
<b>Total Operating Expenses and Equipment</b>					\$365	\$299
<b>Total State Operations Expenditures</b>					\$1,175	\$1,104
<b>Fund Source</b>	<b>Item Number</b>					
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>			
General Fund	0860	001	0001		\$767	\$721
Special Funds <sup>5</sup>						
Federal Funds						
Other Funds (Specify)						
Reimbursements	0860	001	0995		\$408	\$383
<b>Total Local Assistance Expenditures</b>						
<b>Fund Source</b>	<b>Item Number</b>					
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>			
General Fund						
Special Funds <sup>5</sup>						
Federal Funds						
Other Funds (Specify)						
Reimbursements						
<b>Grand Total, State Operations and Local Assistance</b>					\$1,175	\$1,104

<sup>1</sup> Itemize positions by classification on the Personal Services Detail worksheet.<sup>2</sup> Provide benefit detail on the Personal Services Detail worksheet.<sup>3</sup> Provide list on the Supplemental Information worksheet.<sup>4</sup> Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.<sup>5</sup> Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

(Whole dollars)

### Salaries and Wages Detail

Page 15 of 15



BOARD OF EQUALIZATION  
**REVENUE ESTIMATE**

## ELECTRONIC COMMERCE AND MAIL ORDER SALES

### Summary

The California State Board of Equalization (BOE) summarizes California electronic commerce and mail order sales and use tax revenue estimates for fiscal years 2012-13 through 2014-15 in Table 1. The BOE estimates that total revenue losses related to remote sellers for both businesses and household consumers were about \$1.012 billion in fiscal year 2012-13. These losses are expected to grow to \$1.080 billion by fiscal year 2014-15, consistent with substantial growth in electronic commerce sales.

These revenue losses are spread among approximately 12.4 million households and 3.7 million businesses. Unpaid sales and use tax liabilities in 2013-14 average \$44 per year for each California household, which are associated with more than \$500 per household in taxable purchases. California businesses average \$157 per year in unpaid sales and use tax liabilities.

<b>Table 1</b>			
<b>Fiscal Year Forecasts of Use Tax Revenue Losses</b>			
<b>(Millions of Dollars)</b>			
	Fiscal Year		
	2012-13	2013-14	2014-15
Business to Consumer (B-to-C)	\$492	\$547	\$607
Business to Business (B-to-B)	\$520	\$574	\$472
Total Use Tax Revenue Losses	\$1,012	\$1,121	\$1,080
Total Use Tax Revenue Losses by Funding Jurisdiction			
State	\$785	\$869	\$837
Local	\$227	\$251	\$242
Total State and Local Use Tax Revenue Losses	\$1,012	\$1,121	\$1,080
Note: Totals may not add because of rounding.			

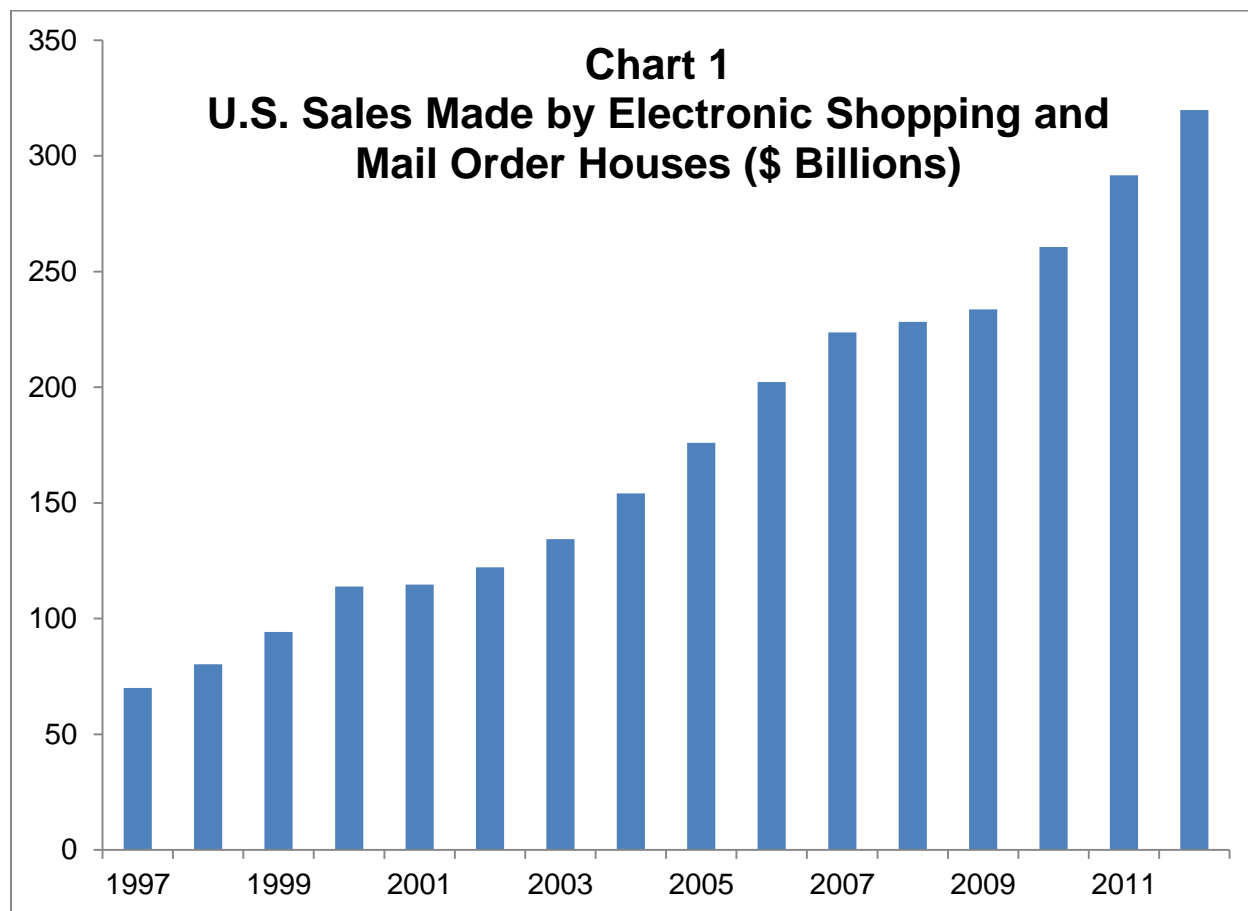
### Introduction

Updated Estimates. This is an update of the BOE 2010 electronic commerce and mail order sales and use tax gap estimates for fiscal years 2012-13 through 2014-15. The “tax gap” is defined as the difference between what taxpayers owe and what they voluntarily pay. These estimates of sales made by out-of-state companies reflect updated and revised data, changes in business practices, law changes, and regulation changes since December 2010. To revise the

estimates, the BOE reviewed Sales and Use Tax Department data and information released by the U.S. Census Bureau and other sources, including industry.

One of the most important differences from the 2010 study is an update of the percentage of sales made from unregistered out-of-state companies to California households. The most recent review indicates that 23 percent of such sales come from companies not registered with the BOE. In the 2010 report, the estimate was 37 percent. With this decline in the percentage and no other changes in law, sales tax administration practices, taxpayer behavior, or other factors, the tax gap associated with electronic commerce and mail order sales would be expected to decrease significantly from the estimates released in 2010.

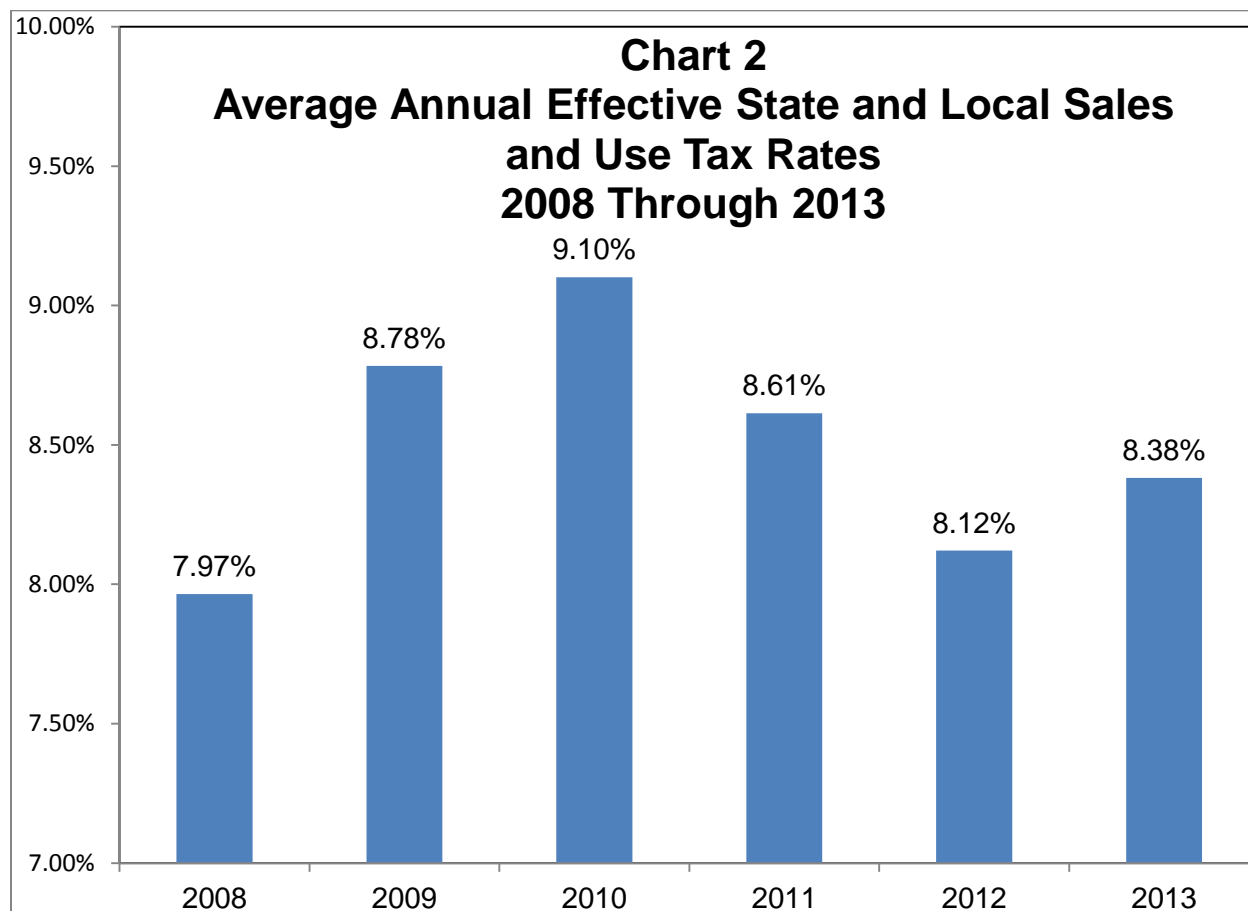
Historical Changes in Annual Tax Gap Estimates. As shown in Chart 1, U.S. sales made by “Electronic Shopping and Mail Order Houses” have risen dramatically since the late 1990s. These sales jumped more than four-fold, from \$70 billion in 1997 to \$320 billion in 2012, primarily from increases in electronic commerce.<sup>1</sup> Over the past three years they have grown, on average, over 11 percent per year. The data available show double-digit increases continuing into the first half of 2013.



<sup>1</sup> Source: U.S. Census Bureau, <http://www.census.gov/retail/>

Based on the data in Chart 1, the BOE estimated California historical noncompliance (tax gap) revenues for business-to-consumer transactions from 1997 to 2012. From 1997 to 2011, the BOE calculated these revenues assuming 37 percent of sales were from unregistered out-of-state companies (the percentage used in the 2010 study). For illustrative purposes, BOE assumed 23 percent (the current estimate) in the 2012 calculations.

With no other change in federal or state laws, sales tax administration practices, taxpayer behavior, or other factors, the tax gap associated with electronic commerce and mail order sales would be expected to increase generally every year from 1997 to 2011, paralleling the growth shown in Chart 1. However, many of these factors have changed within the past 17 years. For example, combined state and local sales tax rates increased gradually from 1997 to 2008, rising from 7.92 percent to 7.97 percent, primarily because of more local district taxes over this time period. However as shown in Chart 2, rates have varied dramatically from 2008 to 2013, mostly due to legislative changes in statewide tax rates.



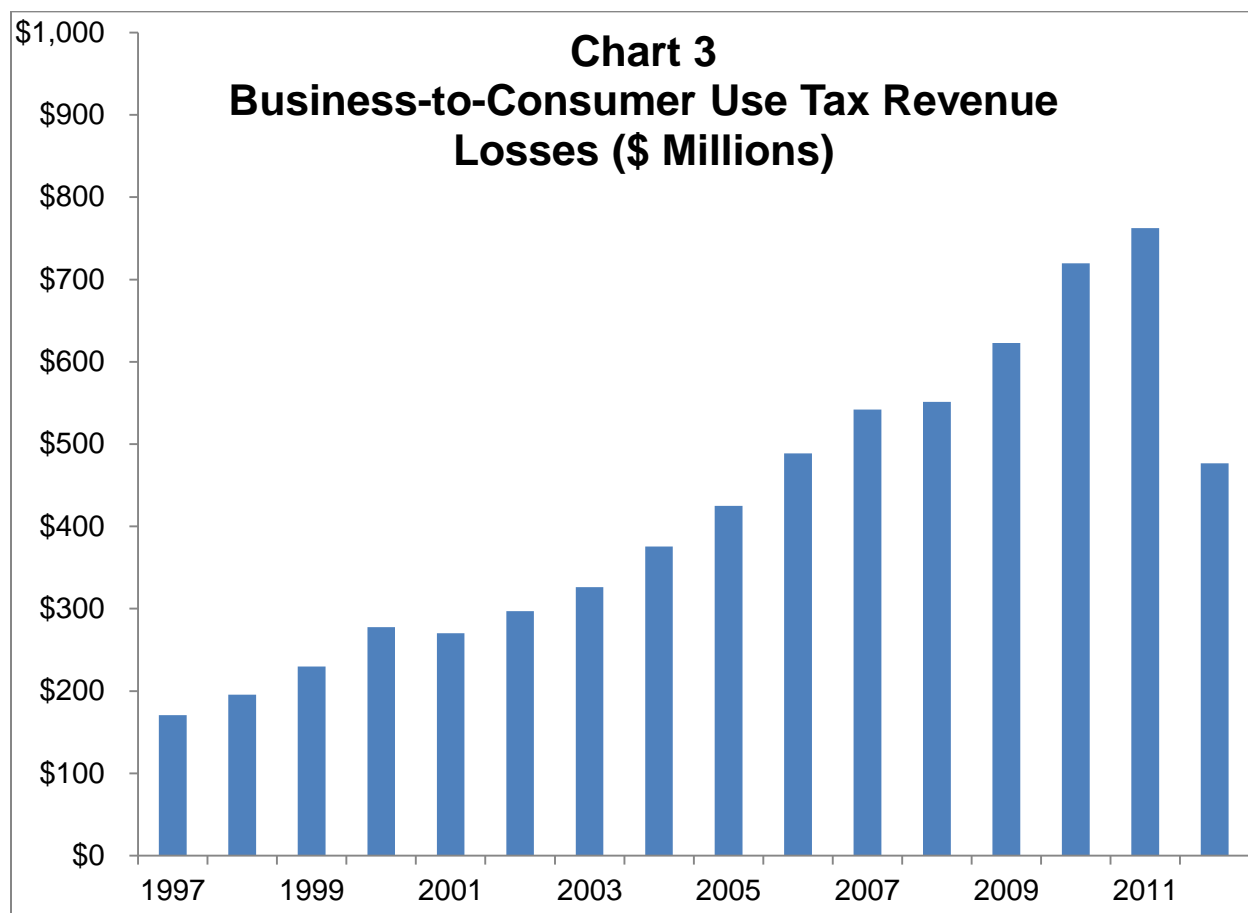
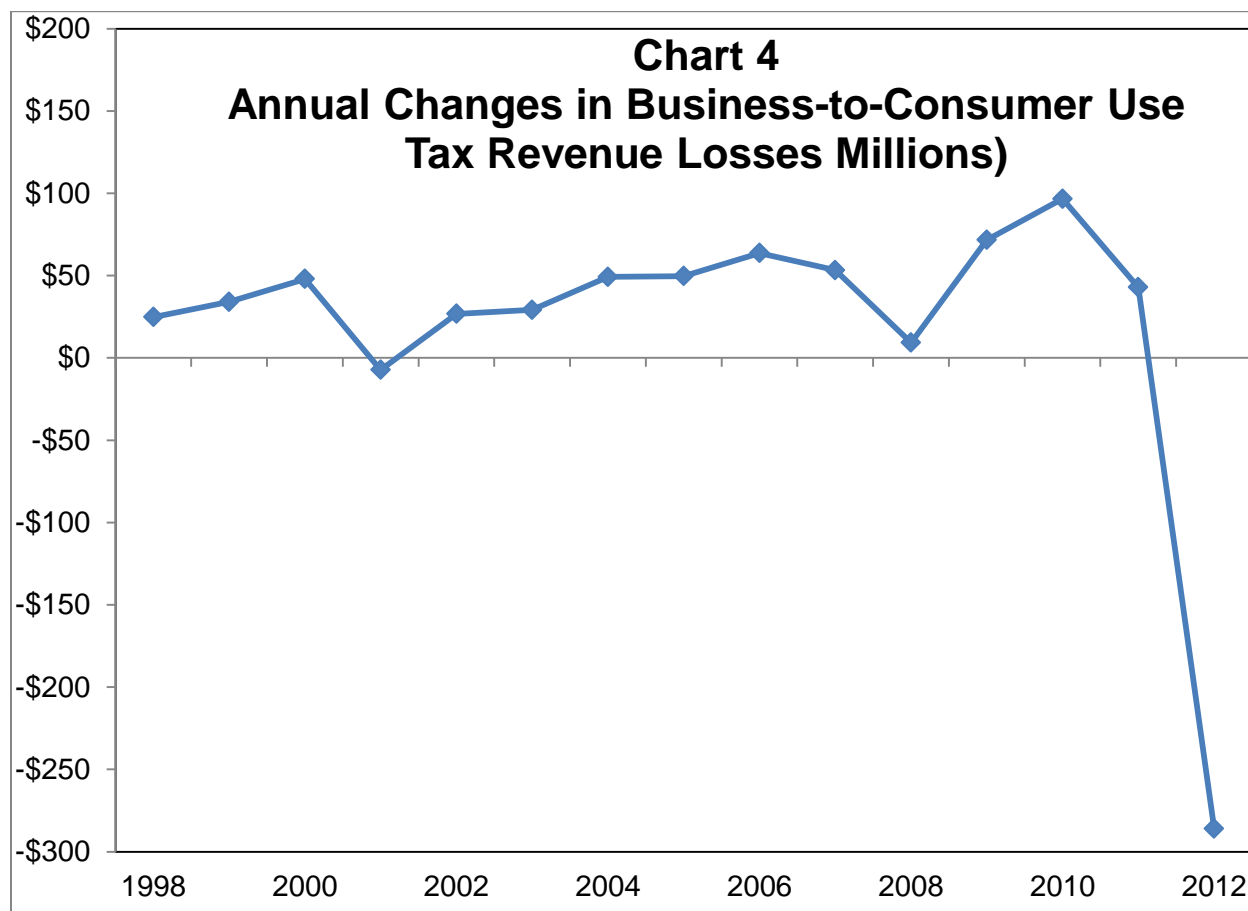


Chart 3 shows annual business-to-consumer use tax revenue losses. They rose from \$171 million in 1997 to \$763 million by 2011. In 2012, with the decrease in unregistered out-of-state sellers (nexus percentage) from 37 percent to 23 percent, the tax gap declined dramatically, to \$477 million.<sup>2</sup> This amount decreased from 2006.

<sup>2</sup> This number differs from the estimate for 2012 shown later in this report in Tables 1, 3 and 4 because the Table 3 number relies on data not available for all years from 1997 to 2012.

Chart 4 shows annual changes in the tax gap using the data in Chart 3. The 2012 decline in the tax gap is unlikely to occur in future years unless tax laws or other factors change significantly. This is because the dramatic decrease in the nexus percentage in 2012 is not expected to be repeated in future years under current law. If electronic commerce growth continues at the same rate, the tax gap would be expected to annually increase. However, the absolute size of the gap will continue to be nearly \$300 million less than it would have been without the decrease in the nexus percentage.



## Background, Methodology, and Assumptions

### (1) Background Sources and Data Assumptions

The methodology used to derive these estimates is similar to what was used in BOE's previous revenue estimates. There are two major markets for electronic commerce: business-to-consumer (B-to-C) and business-to-business (B-to-B). Each market has its own separate data sources and critical assumptions. It is assumed all mail order sales are B-to-C. The data sources and methodology are summarized here.



(2) Business-to-Consumer (B-to-C)

Data and Methodology. The BOE used the exact same data and methodology to determine taxable remote sales and the percentage of those sales made by firms registered in California that were used in the determination of the "Lookup Table" for calendar year 2013 specified in Regulation 1685.5 (Approved by Office of Administrative Law and filed with the Secretary of State with an effective date of 07/01/13.) Table 2 summarizes the relevant calculations made in Regulation 1685.5.

<b>Table 2</b>	
<b>Calculations to Determine Regulation 1685.5 Use Tax Table Percentage for 2013 (2012 Data)</b>	
U.S. Personal Income (Billions of Dollars) <sup>1/</sup>	\$13,431
U.S. Spending at Electronic Shopping and Mail Order Houses (Billions of Dollars) <sup>2/</sup>	\$320
Additional Estimated Remote Sales From Other Retailers (2009 data, U.S. Census Bureau, E-Stats, Billions of Dollars)	\$10
Total Estimated Remote Sales	\$330
Taxable Percentage <sup>3/</sup>	69.3%
<b>Estimated Taxable Remote Sales</b>	<b>\$228.513</b>
Percent of Income Spent on Electronic and Mail Order Purchases	1.7%
Average Percentage of California Purchases From Out-of-State Vendors Without Nexus <sup>4/</sup>	23%
Average State and Local Sales and Use Tax Rate <sup>5/</sup>	8.38%
Use Tax Table Percentage	0.033%
<u>Sources:</u> 1/ U.S. Bureau of Economic Analysis, "Table 2.1," <a href="http://www.bea.gov">http://www.bea.gov</a> . 2/ U.S. Census Bureau, "Monthly Retail Trade Report," <a href="http://www.census.gov/retail">http://www.census.gov/retail</a> . 3/ U.S. Census Bureau, <i>2007 Economic Census, Product Lines</i> , <a href="http://www.census.gov/econ/census07">http://www.census.gov/econ/census07</a> . 4/ Regulation 1685.5. 5/ Board of Equalization, Research and Statistics Section.	

(A) Specific Data Sources. Remote sales are defined as electronic or traditional mail order sales. Our basic data source is the U.S. Census Bureau, as it was in previous estimates. The Census Bureau publishes sales estimates for North American Industrial Classification System (NAICS) Industry 4541, "Electronic Shopping and Mail Order Houses," (ESMOH) monthly, annually and every five years in various reports.<sup>3</sup> This industry data consists of retailers whose primary business (or a separate subsidiary) is mail order or electronic commerce sales. Based on another Census Bureau publication, BOE adds a Census Bureau estimate of e-commerce sales from companies that make some sales from websites, but have no separate website subsidiaries.

(B) Taxable Portion of Remote B-to-C Sales. Remote sales data from the *2007 Economic Census* for NAICS Industry 4541 include detailed product categories and sales volumes. Based on this product list, BOE estimates that about 30.7 percent of U.S. remote sales were exempt in

<sup>3</sup> Every five years the U.S. Census Bureau counts businesses. The most recent census year was 2007.

2007 under the California Sales and Use Tax Law. Prescription drugs account for the vast majority of these exempt sales; 26.2 percent of the 30.7 percent, are prescription drugs. These percentages apply to all remote sales; there are no separate product data for electronic and mail order sales. It is assumed these national product category percentages of remote sales also apply to California. This premise implies that 69.3 percent of remote sales are taxable to California purchasers.<sup>4</sup>

(C) Compliance and Nexus Percentage Assumptions. For revenue estimation, BOE assumes that all retailers registered with the BOE (firms with California nexus) are remitting the sales and use tax they owe. It is further assumed that all household use tax payments were remitted on income tax forms.

Based on 2012 research and the methodology specified in Regulation 1685.5, BOE estimates that 77 percent of remote sales to California households were made from retailers with California nexus. This percentage includes registrations made in response to AB 155 (*Statutes of 2011*).

(D) Forecast Assumptions. Forecasts for 2013 through 2015 growth assume the growth rate of ESMOH for the past three years. This average growth rate is 11.1 percent per year.

Tables 2 and 3 show how these assumptions and data combine to result in a revenue estimate for calendar year 2012. The shaded line in Table 2 (Estimated Taxable Remote Sales) indicates that this figure provides a starting point for the calculations made in Table 3. BOE assumes that all calendar year liabilities for 2012 (\$492 million) are paid in the fiscal year 2012-13. Table 4 shows forecasts of revenues for the following two fiscal years.

<b>Table 3</b> <b>Estimate of Business to Consumer (B-to-C) Use Tax Noncompliance in Calendar Year 2012</b>	
	<b>Millions of Dollars in 2012</b>
Estimated U.S. Taxable Remote Sales (Regulation 1685.5, Table 2)	\$228,513
California Share (U.S. Census Bureau, 12 Percent of U.S. Population)	\$27,422
Remote Sales From Unregistered Companies (23%, Regulation 1685.5)	\$6,307
Implied Taxable Sales Reported on Personal Income Tax Forms (Source: Franchise Tax Board, Assume Statewide Average Tax Rate of 8.12%)	\$249
Implied Noncompliant Remote Sales (Sales Not Reported)	\$6,058
Revenues at a Statewide Average Tax Rate of 8.12%	\$492

<b>Table 4</b> <b>Fiscal Year Forecasts of Business to Consumer (B-to-C) Use Tax Noncompliance</b> <b>(Millions of Dollars)</b>			
	2012-13	2013-14	2014-15
	\$492	\$547	\$607

<sup>4</sup> This percentage, 69.3 percent, differs slightly from the 69.5 percent used in 2010 due to a more thorough review of the Census data for implementation of Regulation 1685.5 after BOE's 2010 estimates were released.

### (3) Business-to-Business (B-to-B)

#### (A) Data Sources and Definitions

The data available for estimating B-to-B revenues are less certain than that for B-to-C revenues.<sup>5</sup> BOE based its B-to-B revenue estimate on data from the Merchant Wholesale Trade Sales Survey published by the U.S. Census Bureau.<sup>6</sup> Unlike the B-to-C data, BOE is unaware of any Census Bureau estimates that include traditional mail order sales to businesses. The BOE assumes that B-to-B electronic commerce sales include traditional mail order sales from one business to another business.

#### (B) Adjustments

Vehicle Sales Adjustments and Industry Exemptions. Transportation equipment purchases are excluded from the estimates because most vehicles are registered with the Department of Motor Vehicles, and sales and use tax compliance is generally very high as a result. Some industries have exemptions or partial exemptions that reduce their use tax liabilities. BOE adjusted for industry exemptions, including the use tax exemption for insurance and the partial farm equipment sales and use tax exemption for agriculture.

Available data sources reasonably estimate vehicle sales and these specific industry exemptions, enabling BOE to adjust for them. Apparently, no data exists to adjust similarly for online purchases. Therefore, BOE assumed that the overall purchase data relationships matched the online data relationships. Data sources for these adjustments are the U.S. Census Bureau and the U.S. Bureau of Economic Analysis (BEA).<sup>7</sup>

California Share of U.S. Sales. The California portion of sales was excluded by estimating the California share of all U.S. companies that are registered with BOE. An estimate of 13 percent for the California share of U.S. B-to-B sales was used, which is slightly higher than our population share of the nation (12 percent) to reflect the California share of U.S. gross domestic product.

(C) Exempt Sales. Sales data tabulated by the Census Bureau include both final sales and sales of intermediate goods used as inputs in the production process. 60 percent of sales are assumed exempt, either because final goods sold are exempt or because the sales are for resale or intermediate goods used in production. If 60 percent of sales are exempt, this implies that the remaining 40 percent of sales are taxable under California law.

(D) Compliance by Businesses. These estimates reflect all taxable business purchases made without regard to whether sales or use tax has been paid. Businesses can pay sales and use

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<sup>5</sup> U.S. Census Bureau e-commerce data are collected in several separate surveys. These surveys use different measures of economic activity (shipments, sales and revenues). The Census Bureau notes that these measures “should be interpreted with caution.” There is potential for double counting of sales if the data are interpreted incorrectly. Furthermore, we do not know with certainty how much of the total B-to-B sales and use tax obligation has already been paid by businesses.

<sup>6</sup> 2011 E-Commerce Multi-sector Report, U.S. Census Bureau, May 23, 2013, web site: <http://www.census.gov/eos/www/ebusiness614.htm>.

<sup>7</sup> Sources: 2013 Capital Spending Report: U.S. Capital Spending Patterns, 2002-2011, U.S. Census Bureau; Table 5.5.5 and “Industry Tables,” U.S. Bureau of Economic Analysis.

tax to registered companies at the time of purchase. Alternatively, purchasers can pay use tax either directly to BOE or on their individual income tax returns. Overall compliance rates are unknown.

Through one means or another BOE believes that registered sales and use tax is paid on 90 percent of California taxable B-to-B electronic commerce sales. BOE data on tax returns processed under ABx4 18<sup>8</sup> indicate a similar percentage. The Illinois Department of Revenue estimates that businesses pay 90 percent of their sales and use tax liabilities.<sup>9</sup> This compliance percentage also is consistent with data from the U.S. General Accountability Office (GAO), which assumed a range of 50 to 95 percent compliance rates for taxable B-to-B purchases, excluding cars.<sup>10</sup> The BOE believes California is likely to have far better compliance than most states because of both size (which implies more business purchases from firms with nexus) and a long tradition of relatively strong tax administration. Ninety percent compliance implies that the remaining 10 percent of taxes due are not paid.

(E) Forecast Assumptions. The most recent B-to-B e-commerce data are available for 2011. Census Bureau and BEA data indicate that the vast majority of business spending for final consumption is for capital equipment items. The BOE estimated B-to-B e-commerce for 2012 through 2015 using the growth rates of capital equipment spending from the June 2013 *Global Insight* Forecast.<sup>11</sup>

(F) Adjustment for Recent Legislation

Assembly Bill 93 (as amended by Senate Bill 90) created partial sales and use tax exemptions for manufacturing and bio-technology equipment that will take effect July 1, 2014. The BOE adjusted for the impacts of this legislation. The same Census Bureau source used to determine B-to-B revenues indicates that 24 percent of all U.S. merchant wholesale trade sales were electronic commerce sales in 2011. The BOE assumes electronic commerce purchases made under AB 93 are the same percentage prior to adjusting for the BOE Tax Gap Program and ABx4 18<sup>12</sup>.

Table 5 shows how these assumptions and data combine to impact revenue estimates for each year. The data in the table are documented with line number references. It is assumed that all calendar year liabilities are paid in the fiscal year ending July 1 of the following year. Baseline

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<sup>8</sup> ABx4 18, Statutes of 2009 enacted Revenue and Taxation Code Section 6225, which requires a qualified purchaser to register with the Board and report and pay use tax owed for the previous calendar year.

<sup>9</sup> "A New Method for Estimating Illinois's E-Commerce Losses," Andy Chupick and Natalie Davila, *Tax Analysts Special Report*, February 16, 2009.

<sup>10</sup> *Sales Taxes: Electronic Commerce Growth Presents Challenges; Revenue Losses Are Uncertain*, U.S. General Accounting Office, June, 2000. Car sales are often excluded in such analyses because with vehicle registration requirements, tax compliance rates for car purchases are assumed to be close to 100 percent.

<sup>11</sup> *Global Insight* is a well-known economic forecasting company that produces detailed monthly forecasts of the U.S. economy. The Research and Statistics Division, along with the Department of Finance and state agencies of many other states, subscribes to *Global Insight* forecasts.

revenues are estimated first. Next, they are adjusted by subtracting estimated use tax to be paid by businesses because of the BOE Tax Gap Program and ABx4 18. Revenues from the BOE Tax Gap Program and ABx4 18<sup>12</sup> are estimated to be \$38 million and \$51 million per year, respectively. Increases in these figures over time were not forecast due to insufficient data, and no clear trend in the available data. Using the methodology discussed earlier, the AB 93 legislation reduced fiscal year 2014-15 revenues on Line 19 of Table 5 by \$155 million. (Revenues were \$627 million prior to this calculation.) With this adjustment, revenues are \$472 million, less than they were in 2011-12.

## **Preparation**

Joe Fitz, Chief of the Research and Statistics Section, prepared this revenue estimate. For additional information, please contact Mr. Fitz at (916) 323-3802. Any use of this data should be credited to the California State Board of Equalization (BOE).

Current as of August 21, 2013.

cc: Ms. Cynthia Bridges  
Mr. Jeff McGuire  
Ms. Susanne Buehler  
Ms. Michele Pielsticker  
Mr. Larry Bergkamp  
Mr. Bill Benson  
Mr. Ronil Dwarka

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<sup>12</sup> See *supra* note 6.

<b>Table 5</b>						
<b>Business to Business (B2B) Sales and Revenues</b> <b>(Millions of Dollars Unless Otherwise Noted)</b>						
<b>Line No.</b>		<b>Calendar Years</b>				
		<b>Actual</b>	<b>Estimated</b>	<b>Forecast</b>	<b>Forecast</b>	
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
1	Merchant Wholesale Trade Sales (MWTS) E-commerce	1,573,129	1,694,834	1,784,966	1,926,626	2,091,900
2	Percent Change	10.2%	7.7%	5.3%	7.9%	8.6%
	<u>Adjustments:</u>					
3	Transportation equipment	19,085	22,818	23,728	25,317	27,199
4	Partial exemption for agricultural equipment	7,460	8,037	8,465	9,136	9,920
5	Insurance equipment	2,794	3,010	3,171	3,422	3,716
6	U.S. E-commerce Adjusted for Industry Exemptions (Line 1 - Line 3 - Line 4 - Line 5)	1,543,789	1,660,969	1,749,602	1,888,751	2,051,065
7	California share of U.S. Gross Domestic Product	13%	13%	13%	13%	13%
8	Exclude Estimated Sales Made by CA Businesses (Line 6 x Line 7)	200,693	215,926	227,448	245,538	266,638
9	California-Adjusted U.S. Remote Sales (Line 6 - Line 8)	1,343,097	1,445,043	1,522,154	1,643,213	1,784,426
10	Estimated Share of Taxable Sales	40%	40%	40%	40%	40%
11	California-Taxable U.S. Remote Sales (Line 7 x Line 9 x Line 10)	69,841	75,142	79,152	85,447	92,790
12	Baseline Noncompliance Rate	10%	10%	10%	10%	10%
13	Revenue Loss Tax Base (Line 11 x Line 12)	6,984	7,514	7,915	8,545	9,279
14	Tax Rate (Average Annual Rate for Calendar Year) <sup>1/</sup>	8.61%	8.11%	8.38%	8.38%	8.38%
		<b>Fiscal Years</b>				
		<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>2014-15</u></b>	
15	Estimated CA-adjusted baseline revenues (Line 13 x Line 14)		\$601	\$609	\$663	\$561
16	<u>Revenue Adjustments:</u>					
17	BOE Tax Gap Program		38	38	38	38
18	Assembly Bill x4 18 <sup>13</sup>		51	51	51	51
<b>19</b>	<b><i>Estimated Revenue Losses (Line 15 - Line 17 - Line 18)</i></b>		<b><i>\$512</i></b>	<b><i>\$520</i></b>	<b><i>\$574</i></b>	<b><i>\$472</i></b>
1/ Average rate for calendar year 2011, including the temporary tax increase effective from April 1, 2009 through June 30, 2011.						

<sup>13</sup> See *supra* note 6.

## List of Proposed Outreach PROJECTS

Project	District Office (DO)	Outreach Methods	Estimated Completion Date
<b>PowerPoint Presentations.</b> Update and enhance or add the following Speaker's Bureau PowerPoint presentations: <ul style="list-style-type: none"> <li>• Small Business Fair Basic Sales and Use Tax</li> <li>• Nonprofit Seminar</li> <li>• Restaurant Seminar</li> <li>• Basic Sales and Use Recordkeeping,</li> <li>• eFiling, eReg, ePay presentation</li> <li>• Construction contractors</li> <li>• Internet sales and purchase</li> <li>• Catering/Food Trucks</li> <li>• Cash-based businesses (your taxing obligations)</li> <li>• Gas Stations</li> <li>• Used Car Dealers</li> <li>• Artists/Graphic Designers</li> <li>• In -language Sales and Use Tax Class (Spanish, Vietnamese, Chinese)</li> </ul> Use less regulatory language and use easy real life samples, keep all presentations to 1 hour or less (less is preferred)	All	1. Make presentations available for download from eBOE and website  2. Attend Trade Assn meetings as a guest speaker  3. Attend Industry Assn meeting as a guest speaker  4. Presentations at college businesses classes	

## List of Proposed Outreach PROJECTS

Project	District Office (DO)	Outreach Methods	Estimated Completion Date
<b>Industry Specific Videos.</b> Scripts can be started from current industry specific BOE publications. Keep all videos to less than 20 minutes (5-10 minutes preferred). Start with: <ul style="list-style-type: none"> <li>• Nonprofits</li> <li>• Restaurants</li> <li>• Gas Stations</li> <li>• Home-based businesses</li> <li>• Internet businesses/Auctions</li> <li>• Used Car Dealers</li> <li>• Use Tax – Farming Equipment and Large Manufacturers</li> </ul>	All	<ol style="list-style-type: none"> <li>1. Online video posted to BOE site, YouTube, Facebook, etc.</li> <li>2. Outreach to industry stakeholders and partners to inform and promote videos</li> <li>3. eBlast link to appropriate business codes when videos are completed</li> <li>4. (F/Up whenever updated)</li> <li>5. Make available Spanish</li> </ol>	
<b>YouTube Tax Tips.</b> Scripts can be started from current tax fact BOE publications. Keep all videos to less than 7 minutes (3-5 minutes is preferred). Start with: <ul style="list-style-type: none"> <li>• <i>Combination Packages and Gift-Wrapping</i></li> <li>• <i>Coupons, Discounts and Rebates</i></li> <li>• <i>Tips, Gratuities, and Service Charges</i></li> <li>• <i>Labor Charges</i></li> <li>• <i>Drop Shipments</i></li> <li>• <i>Sales and Use Tax Records</i></li> <li>• <i>eReg</i></li> <li>• <i>eFile</i></li> <li>• <i>ePay</i></li> </ul>	All	<ol style="list-style-type: none"> <li>1. Online video post to YouTube, link to it from the BOE Facebook page</li> <li>2. Outreach to industry stakeholders and partners to inform and promote</li> <li>3. eBlast link to appropriate business codes when YouTube videos are completed (F/Up whenever updated)</li> </ol>	



## List of Proposed Outreach PROJECTS

Project	District Office (DO)	Outreach Methods	Estimated Completion Date
<b>Compliance Tips Op-ed and Articles</b> for Industry Newsletters and local media outlets. Start with basics: Record keeping, eReg, Resale Certificates, Use tax, Cash-based businesses; but use samples and language specific to the industry that the Op-ed is intended for.	All	1. Submit to industry newsletters 2. Submit to chamber newsletters 3. Submit to local media outlets 4. Attend industry and chamber meeting to promote BOE services and articles	
<b>SUTD Industry Specific Webpages</b> - Add to the current groups. Include toolkit with links to; presentations, YouTube videos, pubs, regulations, groups that can help them (SBA, SCORE, SBDC, etc.) Add: <ul style="list-style-type: none"> <li>• Nonprofits</li> <li>• Gas Stations</li> <li>• Home-based businesses</li> <li>• Internet businesses/Auctions</li> <li>• Used Car Dealers</li> <li>• Farming Industry</li> <li>• Swap meets</li> <li>• Catering Trucks/Food Trucks</li> <li>• Audit and Dual Liability</li> </ul>	All	1. Outreach to industry stakeholders and partners to inform and promote webpage 2. eBlast link to appropriate business codes as webpages are completed (F/Up whenever updated)	

## List of Proposed Outreach PROJECTS

Project	District Office (DO)	Outreach Methods	Estimated Completion Date
<b>Expos and Booths.</b> Have expo booths or tables at annual conferences for industry groups, ethnic chambers, trade associations; include county fairs and festivals to get information to groups who are having compliance issues. Start with:  Booth at County and Trade Fairs (Use Tax, eReg, Underground economy, what's taxable info)  Booth at Micro Brew/Food festivals – Food and Beverage Industry info  Booth at Association conventions  Attend Trade Group conferences – booth/speaker  Expo participants at ethnic business annual conventions	All	1. Attend Trade Assoc meetings to see if the BOE can have a booth for free or at a reduced rate  2. Attend Industry Assoc meetings to see if the BOE can have a booth for free or at a reduced rate  3. Have industry specific information available for attendees	
<b>Indian Casinos/Card rooms.</b> Design a half-page single sheet to address use tax obligations at Indian Casinos and local Card rooms.	All	Work with the Statewide Indian Tribes Assoc – Ask that they give out reminder flyer about use tax  Casinos – Leverage Compliant Tribes to spread the news about use tax	
<b>Join Chamber Assoc</b> to establish and strengthen partnership opportunities	All	Attend local chamber meetings and visit chamber offices to let them know about BOE services and ask for free or reduced rate memberships	
<b>SCOP/Outreach combined meetings</b> – at the district level have the Regional Outreach and SCOP teams meet annually to share information and to see how the teams can help each other get messages out to the community. agencies	All		

### List of Proposed Outreach PROJECTS

Project	District Office (DO)	Outreach Methods	Estimated Completion Date
<b>Partner with Ports/Airports.</b> Partner with ports of entry to remind folks of Use Tax obligations. Use current pubs and tools	All	1. Meet with Airport and Port Authorities to form a partnership to disseminate use tax information	
<b>Webinars.</b> Produce webinars of industry specific problems (Tax Talks). Keep topics to 1 hour with open forum Q&A.	All	2. Attend industry and chamber meetings to promote webinars 3. Partner with other state and federal agencies for outreach 4. One-on-One meetings with city councils to promote webinars 5. Partner with enrolled agent groups to promote webinar 6. Promote through local media outlets 7. eBlasting invite to specific business codes that may benefit from webinars	
<b>Expand Social Media Use.</b> Announce updates to pubs, announce tax seminars and workshop dates, announce new online or webinar topics, etc.	All	1. Join business assoc social media groups 2. Post to assoc groups 3. Post to BOE Facebook 4. Post to BOE Linked-In 5. Use Twitter, etc	

#### Additional Regional Outreach Projects

1. Webinar
2. Teleconference Seminars for Business
3. Mailers
4. MREP Program
5. SOS Program
6. Making Taxes Simple
7. New Online Presentations
8. New Business Web Page
9. Enhanced In-Person Seminar Presentations (SUTD)
10. One-Stop-Shop (Getting Business Done) Events

STATE OF CALIFORNIA  
Budget Change Proposal - Cover Sheet  
DF-46 (REV 03/13)

Fiscal Year 2014-15	BCP No.	Org. Code 0860	Department State Board of Equalization	Priority No.
Program Administration Department			Element	Component N/A

Proposal Title  
INTRUSION DETECTION/INTRUSION PREVENTION SYSTEM – INFORMATION SECURITY

Proposal Summary  
The Board of Equalization (BOE) requests \$852,000 (\$556,000 General Fund (GF), \$296,000 Reimbursements) and 6.0 permanent positions in fiscal year (FY) 2014-15 and \$759,000 (\$496,000 GF, \$263,000 Reimbursements) in FY 2015-16 and ongoing for the BOE to administer, maintain and inspect the network security solutions that comply with the Internal Revenue Service (IRS) Publication (Pub) 1075, *Tax Information Security Guidelines for Federal, State and Local Agencies*. Compliance with IRS guidelines is necessary to ensure the BOE's ability to continue to utilize IRS tax information which is critical to the collection of estimated \$3-5 million revenue annually.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Technology Agency

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA Date submitted to the Legislature

**STATE BOARD OF EQUALIZATION**  
**Administration Department**  
**Intrusion Detection/Intrusion Prevention System – Information Security**  
**Fiscal Year 2014-15**

**A. Proposal Summary**

The Board of Equalization (BOE) requests \$852,000 (\$556,000 General Fund (GF), \$296,000 Reimbursements) and 6.0 permanent positions in fiscal year (FY) 2014-15 and \$759,000 (\$496,000 GF, \$263,000 Reimbursements) in FY 2015-16 and ongoing for the BOE to administer, maintain and inspect the network security solutions that comply with the Internal Revenue Service (IRS) Publication (Pub) 1075, Tax Information Security Guidelines for Federal, State and Local Agencies. Compliance with IRS guidelines is necessary to ensure the BOE's ability to continue to utilize IRS tax information which is critical to the collection of estimated \$3-5 million revenue annually.

The BOE is required to install an Intrusion Detection System and an Intrusion Prevention System (IDS/IPS) in order to comply with IRS Pub 1075. In addition, the IRS is also requiring employees working in the BOE's field offices to wear identification badges. The BOE is requesting 6.0 positions to administer and maintain the network security solutions, perform internal Federal Tax Information (FTI) safeguard inspections of 42 business units (27 field offices, 12 headquarter units, and 3 OTech backup server locations), and maintain security badging for the 27 field offices.

**B. Background/History**

Historically, the bulk of the BOE's corporate taxpayer data has been maintained at the OTech Data Center. In addition, public facing applications, such as e-File, are housed at OTech. Due to rising costs for OTech services, the BOE has been providing internal server space for some FTI and other confidential data. Periodically, the IRS reviews the BOE's safeguards in place to ensure compliance with IRS Pub 1075 to protect FTI and the latest of those audits has determined that the BOE's existing safeguards require enhancements to be fully compliant. The IDS/IPS will monitor all network entry and exit points looking for specific activities that could indicate an attack or malicious activity which could threaten the security of the tax data.

The BOE is required to purchase and install an IDS/IPS and must configure it to specifically address each host that receives, transmits, processes, and stores FTI. This includes documenting the baseline IDS/IPS settings and any deviations necessary to maintain normal business operations. This documentation must include a listing of suspicious events that the IDS/IPS is monitoring and preventing. All this generated documentation needs to be monitored and checked for false positives, therefore, the BOE needs to augment personnel levels to continuously support, audit and monitor the network security solutions and safeguard practices.

IRS Pub 1075 requires the BOE to perform internal inspections (audits) to evaluate the effectiveness of controls over FTI, including an IPS/IDS solution. This requirement prescribes that BOE field offices must be reviewed within a 3-year cycle, and Headquarters (HQ) office facilities housing FTI and the agency computer facility (OTech) reviewed within an 18-month cycle.

In addition, the IRS is also requiring employees working in the BOE's 27 field offices to wear identification badges as a second barrier to protect FTI.

**C. State Level Considerations**

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. In fiscal year 2010-11, the BOE-administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales

and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs. More than one million businesses are registered with the agency.

FTI directly assists the BOE in collecting \$3-5 million in annual revenue. If FTI is not protected up to the requirements of the IRS the BOE risks access to FTI to be eliminated. This would result in loss of revenue currently being generated from FTI. This proposal will ensure that the BOE addresses the mandates from the IRS to comply with IRS Pub 1075. To achieve this we will need highly skilled information security analyst staff with the technical ability to maintain and administer our network security solutions.

#### **D. Justification**

The BOE must comply with the IRS Pub 1075 in order to use FTI provided by the IRS, and because the BOE has FTI in-house and must purchase and install the IDS/IPS, staff will be needed to maintain the systems, review the output and inspect safeguards (controls). An IDS/IPS is a device similar to a burglar alarm that monitors exit points of a building and alerts a monitoring company that can contact the Police or Fire Department depending on the alarm triggered. An IDS/IPS monitors all access points of a network or system looking for malicious activities or policy violations and produces reports to one or many management stations. In addition, IDS/IPS can be used for other purposes, such as identifying problems with security policies, documenting existing threats and deterring individuals from violating security policies. IDS/IPS has become a necessary addition to the security infrastructure of nearly every organization. The monitoring portion of the IDS/IPS records information related to observed events, notifies security administrators of important observed events and produces reports. IDS/IPS also responds to a detected threat by attempting to prevent it from succeeding. They use several response techniques, which involve stopping the attack itself, changing the security environment (e.g. reconfiguring a firewall) or changing the attack's content. Attacks can occur from external sources as well as internal sources.

Maintaining, monitoring, and auditing these systems will require full time staff to respond to events that change the system to prevent attacks as well as to monitor and review event logs to determine the source of attacks and any resulting damage. The BOE needs to have highly skilled personnel to support and maintain the network security enhancements. The BOE requires 1.0 permanent full-time Staff Information Systems Analyst for the Information Security Office, 1.0 permanent full-time Senior Information Systems Analyst and 1.0 permanent full-time Staff Information Systems Analyst for the Technology Services Division (TSD) and 2.0 permanent full-time Business Taxes Specialist II positions to perform FTI safeguard inspections to meet IRS Pub 1075 requirements. These specialists will perform internal audits designed to provide an independent and objective evaluation of FTI safeguard policies, procedures, internal controls, record retention practices, access control, and network security and configuration settings to comply with IRS requirements based on National Institute of Standards and Technology special publication 800-53.

The BOE is also requesting a 1.0 permanent full-time Associate Governmental Program Analyst for the Physical Security Section to administer all badge/ID card related tasks and requests for 4000+ employees in the BOE Headquarters (HQ), annex, and field offices. The associate analyst will be responsible for the following tasks:

- Manage, coordinate, and oversee all ID card/ badge related activities statewide
- Continuous analysis of ID card issuance process and assessment of its effectiveness
- Submit regular status reports and recommendations to management to improve operational process
- Identify and address recurring issues or complaints field office staff may attempt to communicate
- Solve arising ID card related issues effectively while maintaining a high level of courtesy and customer service etiquette
- Function as liaison to the BOE field offices and address ID card related inquiries
- Ensure that ID card related processes remain in compliance with established policies and procedures, of State Law, confidentiality agreements, as well as internal protocol
- Procurement of supplies required for the creation, issuance, management, and distribution of ID cards
- Manage, update, and maintain an electronic database capturing ID card related information

- Implement any changes to the process mandated by management or new laws in a swift and effective manner that will not obstruct or delay business continuation
- Find creative and innovative ways to implement new technology, procedures, and processes

#### **E. Outcomes and Accountability**

This proposal will bring the BOE in compliance with the IRS requirements by enhancing access control, network and physical security and internal inspections. Network security enhancements will include an active IDS/IPS aiding the BOE in safeguarding network assets, while the Security Incident Event Management log monitoring will allow the BOE to determine what types of events occurred on the network, such as data loss, denial of service, and other serious threats.

#### **F. Analysis of All Feasible Alternatives**

**Alternative 1 – Approve 6.0 permanent positions to administer the network security solutions, internal inspections and security badging for field offices.**

##### **Pros:**

- Preserve \$3-5 million in revenue annually by maintaining access to FTI
- Addresses mandate of IRS Pub 1075 compliance
- Grants dedicated staff to provide daily operational support of the IDS/IPS to enhance security and provide improved protection of taxpayer information
- Allows the BOE to provide technical training and mentoring to junior level engineers/technicians by hiring highly skilled and trained staff
- Devotes more time to supporting current and upcoming network security enhancements
- Avoids contracting with private companies for ad hoc support by having dedicated staff for network security
- Provides required second barrier to protect FTI in field offices

##### **Cons:**

- Requires budget augmentation

**Alternative 2 – Approve 6.0 three year limited-term positions to provide needed support.**

##### **Pros:**

- Preserve \$3-5 million in revenue annually by maintaining access to FTI
- Temporarily addresses mandate of IRS Pub 1075 compliance
- Temporarily dedicates staff to provide daily operational support of the IDS/IPS to enhance security and provide improved protection of tax payer's information
- Hiring highly skilled and trained staff allows the BOE to provide technical training and mentoring to junior level engineers/technicians
- Specialist will be able to devote more time to supporting current and upcoming network security enhancements
- Avoids contracting with private companies for ad hoc support by having dedicated staff for network security
- Provides required second barrier to protect FTI in field offices

##### **Cons:**

- Requires budget augmentation
- Risks not being able to fill positions due to the limited term nature
- Risks high turnover in position requiring increased costs to train new employees
- Could leave systems unmonitored due to vacancies

### Alternative 3 – Contract with OTech to provide the IDS/IPS service

#### Pros:

- Preserve \$3-5 million in revenue annually by maintaining access to FTI
- Systems would already be protected by OTech Security Infrastructure

#### Cons:

- Costs for services at OTech would be near \$1 million greater than providing the service In-house (Based on 5 years cost estimate comparisons)
- Significant cost increases by having OTech provide services year over year
- Could result in delays in responding to incidents due to potential questions of responsibility
- Does not protect the in-house assets of the BOE
- Does not address the need to provide staff badging, and badge management

### Alternative 4 – Do not approve this request

#### Pros:

- Does not require a budget augmentation and would require a larger budget augmentation for the BOE

#### Cons:

- Risk of loss of use of FTI data and the \$3-5 million in annual revenue associated with its use
- Slower implementation of various strategic and mandated network security initiatives
- Without staff the BOE will be in jeopardy of not complying with IRS Pub 1075 as mandated for access to FTI
- Additional workload for network security work will impact current staffing levels and workloads which will result in lack of resources for other projects and day to day operations
- Existing staff may need to take on duties not in their job descriptions, necessitating position changes and potentially higher salary ranges, costing more in the long term
- Additional cost of training for current staff will be necessary

## G. Implementation Plan

#### Enhance network security

- July 2014 – Hire staff
- August 2014 – Train staff by vendor
- September 2014 – Verify IRS Pub 1075 compliance
- Ongoing support of the network security enhancements

#### Enhance internal inspections

- July 2014 – Hire staff
- August 2014 – Train staff
- Ongoing performance of FTI safeguards internal inspections

#### Expand Security Badging

- July 2014 – Hire staff
- August 2014 – Train staff
- Ongoing support for security badging

## H. Supplemental Information (Check box(es) below and provide additional descriptions.)

☒ None    ☐ Facility/Capital Costs    ☐ Equipment    ☐ Contracts    ☐ Other



**I. Recommendation**

**Alternative one is recommended.**

Approve 6.0 permanent positions to support IRS mandated enhancement to the network and physical security, and perform internal inspections.

DRAFT

## Workload Detail for Intrusion Detection/Intrusion Prevention System – Information Security

### INFORMATION SECURITY OFFICE (ISO)

#### 1.0 Staff Information Systems Analyst

The ISO has been tasked with providing system automated log review and analysis, resulting in a permanent workload increase for existing staff. Position would be responsible for conducting scans, as well as review of the system generated audit logs. Following review and analysis, the position is required to notify ISO and TSD management of issues, included indications of ongoing or imminent risk, vulnerabilities or threats to the BOE network. As required, the position would be the lead in creating reports on a daily basis indicating the overall trends and patterns of network activity.

Workload Detail				
Classification: Staff Information Systems Analyst	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Analysis of Security Incident Event Management activity logs.	H			600
Analysis of other security related systems logs.	H			360
Development of security risk trend analysis matrices.	H			360
Coordinate development of network remediation plans based on analysis of events and trends.	H			180
Assist in the planning, selection, and testing of security software/hardware products.	H			100
Assist with vulnerability scans.	H			100
Create edit and generate reports based on analysis.	H			100
Total 1800 hours				1800
Total 1 Positions Requested (1,800 Hours/Position)				1.0

## **PHYSICAL SECURITY SECTION (PSS)**

### **1.0 Associate Governmental Program Analyst**

The PSS has been tasked with providing field office support, resulting in a permanent workload increase for existing staff. Due to an IRS mandate, all field office staff must be issued an ID card. Consequently, the PSS must issue ID cards statewide to every new employee, as well as maintain current workload at the BOE HQ. The ongoing badge maintenance workload, such as name change requests, profile updates, and replacement ID cards, will increase due to the number of the additional staff.

<b>Workload Detail</b>				
<b>Classification:</b> Associate Governmental Program Analyst	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Receive request and review for completion and accuracy, correspond with requestor as necessary.	H			180
Obtain and edit corresponding employee photograph for ID card; follow-up with requestor as necessary.	H			180
Create employee profile in the security system and upload photograph into database.	H			360
Print ID card and prepare corresponding paperwork for distribution with card.	H			360
Ship ID card, instructions, and BOE 508A <i>Employee Badge or ID Card Request</i> to district administrator, send email notification of shipment.	H			180
Track, receive, review, and file returned paperwork; update security system and tracking log.	H			270
Inventory control, procurement and distribution of ID card supplies to all field offices.	H			180
Correspond with field offices, vendors, and Acquisitions regarding supplies.	H			90
Total hours				1800
Total Positions Requested				<b>1.0</b>

## **TECHNOLOGY SERVICES DEPARTMENT (TSD)**

### **1.0 Senior Information Systems Analyst and 1.0 Staff Information Systems Analyst**

The TSD has been tasked with providing IDS/IPS support, resulting in a permanent workload increase for existing staff. Due to an IRS mandate, the BOE is required to implement a new IDS/IPS which will monitor the network as part of safeguarding the BOE's assets. This workload increase on existing staff must be augmented to ensure proper system oversight, to include maintaining timely analysis of system generated alerts, mitigation of detected threats, and routine system maintenance.

<b>Workload Detail</b>				
<b>Classification:</b> Senior Information Systems Analyst	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Provide daily operational support of the two mandated network Intrusion Detection/ Intrusion Prevention (IDS/IPS).	H			720
Troubleshoot network problems, outages, hacking/denial of service attempts, and security alerts.	H			720
Monitoring IDS/IPS logs and checking for false positives. Providing de-bugging/troubleshooting, optimization and security support.	H			90
Maintain network documentation, network drawings, and change management forms.	H			90
Provide technical training and mentoring to junior level engineers/technicians.	H			90
Consult with customers regarding network performance problems, ideas for design improvements.	H			90
Total hours				1800
Total Positions Requested				<b>1.0</b>

<b>Workload Detail</b>				
<b>Classification:</b> Staff Information Systems Analyst	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Provide daily operational support of the two mandated network Intrusion Detection/ Intrusion Prevention (IDS/IPS).	H			740
Troubleshoot network problems, outages, hacking/denial of service attempts, and security alerts.	H			720
Monitoring IDS/IPS logs and checking for false positives. Providing de-bugging/troubleshooting and security support.	H			160
Maintain network documentation, network drawings, and change management forms.	H			90
Consult with customers regarding network performance problems.	H			90
Total hours				1800
Total Positions Requested				<b>1.0</b>

## **INTERNAL AUDIT DIVISION (IAD)**

### **2.0 Business Taxes Specialist II**

The IAD has been tasked with performing FTI safeguard audits, resulting in a permanent workload increase for existing staff. Due to the IRS Pub 1075 mandate, all field office, HQ and agency computer facilities housing FTI must be inspected on either a 3-year or 18-month cycle. Consequently, the IAD must perform on average 17 FTI safeguard audits every year.

<b>Workload Detail</b>				
<b>Classification:</b> Business Taxes Specialist II	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
<u>Initiation and Planning</u> – Research and background, prepare risk and control matrix, document data and records process flow, prepare planning memo, entrance conference, preliminary survey, prepare audit program.	H			900
<u>Execution/Fieldwork</u> – Facilitate meetings, interview staff, observations and inspections, benchmarking, evaluation of internal controls, analytical reviews, physical inspections, network configuration testing, access control inspections, prepare summary of findings.	H			1440
<u>Reporting</u> – Review audit findings with auditee, prepare draft report, issue and evaluate corrective action plan responses, prepare and issue final report.	H			900
<u>Closing &amp; Follow-Up</u> – Issue destruction of records memo (if necessary), clean-up and file audit working papers, perform follow-up evaluation (6 months post audit) to ensure corrective actions effectively mitigate identified risk.	H			360
Total hours				3600
Total Positions Requested				<b>2.0</b>

**Fiscal Summary***(Dollars in thousands)*

BCP No. <b>4</b>	Proposal Title <b>Intrusion Detection/Intrusion Prevention System</b>	Program					
<b>Personal Services</b>		<b>Positions</b>			<b>Dollars</b>		
		<b>CY</b>	<b>BY</b>	<b>BY + 1</b>	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>
Total Salaries and Wages <sup>1</sup>			6.0	6.0		\$432	\$432
Total Staff Benefits <sup>2</sup>						\$197	\$197
<b>Distributed Administration</b>							
<b>Total Personal Services</b>			6.0	6.0		\$629	\$629
<b>Operating Expenses and Equipment</b>							
General Expense						\$91	\$16
Distributed Administration							
Printing							
Communications						\$14	\$8
Postage							
Travel-In State							
Travel-Out of State							
Training						\$5	\$5
Facilities Operations						\$68	\$68
Utilities						\$1	\$1
Consulting & Professional Services: Interdepartmental <sup>3</sup>							
Consulting & Professional Services: External <sup>3</sup>							
Data Center Services						\$15	\$15
Information Technology						\$29	\$17
Equipment <sup>3</sup>							
Other/Special Items of Expense: <sup>4</sup>							
<b>Total Operating Expenses and Equipment</b>						\$223	\$130
<b>Total State Operations Expenditures</b>						\$852	\$759
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund	0860	001	0001		\$556	\$496	
Special Funds <sup>5</sup>							
Federal Funds							
Other Funds (Specify)							
Reimbursements	0860	001	0995		\$296	\$263	
<b>Total Local Assistance Expenditures</b>							
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund							
Special Funds <sup>5</sup>							
Federal Funds							
Other Funds (Specify)							
Reimbursements							
<b>Grand Total, State Operations and Local Assistance</b>						\$852	\$759

1 Itemize positions by classification on the Personal Services Detail worksheet.

2 Provide benefit detail on the Personal Services Detail worksheet.

3 Provide list on the Supplemental Information worksheet.

4 Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.

5 Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

## Personal Services Detail

(Whole dollars)

BCP No.				Proposal Title Intrusion Detection/Intrusion Prevention System			
Salaries and Wages Detail							
Classification <sup>1 2</sup>	Positions			Salary Range	Dollars		
	CY	BY	BY + 1		CY	BY	BY + 1
Administration Department					\$0	\$0	\$0
ISO					\$0	\$0	\$0
Staff Information Systems Analyst		1.0	1.0	\$70,356	\$0	\$70,356	\$70,356
PSS					\$0	\$0	\$0
Associate Governmental Program Analyst		1.0	1.0	\$59,448	\$0	\$59,448	\$59,448
					\$0	\$0	\$0
Technology Services Department					\$0	\$0	\$0
Senior Information Systems Analyst		1.0	1.0	\$77,364	\$0	\$77,364	\$77,364
Staff Information Systems Analyst		1.0	1.0	\$70,356	\$0	\$70,356	\$70,356
					\$0	\$0	\$0
Executive Department					\$0	\$0	\$0
IAD					\$0	\$0	\$0
Business Taxes Specialist II		2.0	2.0	\$77,400	\$0	\$154,800	\$154,800
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
Blanket Funds:							
Overtime					0	0	0
Temporary Help	0.0	0.0	0.0		0	0	0
Total Salaries and Wages <sup>3</sup>	0.0	6.0	6.0		\$0	\$432,324	\$432,324
Staff Benefits Detail					CY	BY	BY + 1
OASDI						33,073	33,073
Health/Dental/Vision Insurance						68,692	68,692
Retirement						88,639	88,639
Miscellaneous							
Workers' Compensation						3,934	3,934
Industrial Disability Leave						415	415
Non-Industrial Disability Leave						177	177
Unemployment Insurance						346	346
Other:						1,297	1,297
Total Staff Benefits <sup>3</sup>					\$0	\$196,573	\$196,573
Grand Total, Personal Services					\$0	\$628,897	\$628,897

<sup>1</sup> Use standard abbreviations per the Salaries and Wages Supplement. Show any effective date or limited-term expiration date in parentheses if the position is not proposed for a full year or is not permanent, e.g. (exp 6-30-13) or (eff 1-1-13)

**Note: Information provided should appear in the same format as it would on the Changes in Authorized Positions.**

<sup>2</sup> If multiple programs require positions, please include a subheading under the classification section to identify positions by program/element.

<sup>3</sup> Totals must be rounded to the nearest thousand dollars before posting to the Fiscal Summary.

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 03/13)

Fiscal Year 2014-15	BCP No.	Org. Code 0860	Department State Board of Equalization	Priority No.
Program Sales and Use Tax Program			Element	Component N/A

Proposal Title  
 MANAGED CARE ORGANIZATION TAX

**Proposal Summary**

The Board of Equalization (BOE) requests \$235,000 (Special Funds) in FY 2014-15 and \$168,000 (Special Funds) in FY 2015-16 and 1.25 two year limited-term positions to administer the Inclusion of Medi-Cal Managed Care Plans in Sales Tax pursuant to Senate Bill (SB) 78. From July 1, 2013 until July 1, 2016, SB 78 adds Revenue and Taxation Code Article 5 (commencing with section 6174) to impose a 3.9375 percent sales tax on sellers of Medi-Cal health care services at retail resulting in an estimated \$360 million in revenue annually. Under this provision sellers that are actively engaged in the retail sale of Medi-Cal health care services are required to register, report, and pay the tax to the BOE. This program is entirely different than the routine programs the BOE administers because the sale tax is imposed upon the sellers of Medi-Cal health care services and not upon the sale of tangible personal property.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

☐ FSR      ☐ SPR      Project No.      Date:

If proposal affects another department, does other department concur with proposal?   ☐ Yes      ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

**Department of Finance Use Only**

Additional Review: ☐ Capital Outlay   ☐ ITCU   ☐ FSCU   ☐ OSAE   ☐ CALSTARS   ☐ Technology Agency

BCP Type:      ☐ Policy      ☐ Workload Budget per Government Code 13308.05

PPBA      Date submitted to the Legislature



**STATE BOARD OF EQUALIZATION**  
**Sales and Use Tax Program**  
**Managed Care Organization Tax**  
**Fiscal Year 2014-15**

**A. Proposal Summary**

The Board of Equalization (BOE) requests \$235,000 (Special Funds) in FY 2014-15 and \$168,000 (Special Funds) in FY 2015-16 and 1.25 two year limited-term positions to administer the Inclusion of Medi-Cal Managed Care Plans in Sales Tax pursuant to Senate Bill (SB) 78. From July 1, 2013 until July 1, 2016, SB 78 adds Revenue and Taxation Code Article 5 (commencing with section 6174) to impose a 3.9375 percent sales tax on sellers of Medi-Cal health care services at retail resulting in an estimated \$360 million in revenue annually. Under this provision sellers that are actively engaged in the retail sale of Medi-Cal health care services are required to register, report, and pay the tax to the BOE. This program is entirely different than the routine programs the BOE administers because the sale tax is imposed upon the sellers of Medi-Cal health care services and not upon the sale of tangible personal property.

**B. Background/History**

Medi-Cal is California's Medicaid program. Medi-Cal is a public health insurance program which provides needed health care services for low-income individuals including families with children, seniors, persons with disabilities, foster care, pregnant women, and low income people with specific diseases such as tuberculosis, breast cancer, or HIV/AIDS. The state and federal government equally finance Medi-Cal.

The California Constitution<sup>1</sup> imposes a 2.35 percent tax on insurers doing business in California. Commonly referred to as the "gross premiums tax," the annual insurance tax is based on insurers' gross premiums, less return premiums. The California Constitution specifies that the 2.35 percent tax is in lieu of all other taxes and licenses, with specified exceptions. Any person that meets this constitutional provision's "insurer" definition must register with the Department of Insurance (DOI) and remit the annual gross premiums tax.

As defined in the Constitution, "insurer" does not expressly include a health care service plan, such as a Medi-Cal managed care plan. The Knox-Keene Health Care Service Plan Act Health care service plan covers these providers. Therefore, these plans are not generally prohibited from other taxation.

The "in lieu of" provision that currently exempts insurers from all other state and local taxes and licenses (with certain specified exceptions) does not apply to a Medi-Cal managed care plan. Accordingly, Medi-Cal managed care plans continue to be subject to other state, county, and municipal taxes and licenses, as applicable.

Until July 1, 2013, existing law<sup>2</sup> imposed a 2.35 percent annual tax on every Medi-Cal managed care plan doing business in this state. The tax revenues are remitted to the DOI, and are continuously appropriated to the State Department of Health Care Services (DHCS) for the Medi-Cal program in an amount equal to the difference between 100 percent and the applicable federal medical assistance percentage, with the balance appropriated to the Managed Risk Medical Insurance Board for purposes of the Healthy Families Program.

This Medi-Cal managed care plan tax is imposed on the "total operating revenues," which means all premium or capitation payments a Medi-Cal managed care plan receives for health care services, including, but not limited to, Medi-Cal services. Total operating revenues do not include amounts Medi-Cal managed care plans receive pursuant to a subcontract with a Medi-Cal managed care plan to provide Medi-Cal beneficiaries health care services.

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<sup>1</sup> Article XIII, Section 28.

<sup>2</sup> RTC Section 12201.

Effective July 1, 2013, Managed Care Organization Tax of 3.9375 percent is imposed upon the seller of Medi-Cal health care services at retail, measured by the gross receipts from the sale of those services. Under SB 78, sellers actively engaged in the retail sale of Medi-Cal health care services, are required to register, report, and pay the tax to the BOE. A seller, under this provision is defined as any person, other than specified insurers and dental managed care plans, or any entity that enters into a contract with the DHCS. "Gross receipts," under this new law, means the total premium or capitation payments Medi-Cal managed care plan sellers receive for health care services coverage or provision, including, but not limited to, Medi-Cal services. This new law requires the tax revenues to be deposited in the State Treasury to the credit of the Children's Health and Human Services Special Fund. Furthermore, this new law prohibits counties, cities and districts (areas that impose a district tax) from imposing a sales or use tax on the gross receipts as defined above.

The BOE is statutorily mandated to administer the Sales and Use Tax program. Implementation of the new Managed Care Organization Tax program requires the BOE to develop, design, and maintain the program on a manual basis. Currently, there are a total of 24 identified managed health care providers that are subject to the new tax, and the state, rather than the beneficiaries, pays the premiums for these plans. These 24 providers, who have been remitting the gross premiums tax to the DOI, will now be required to remit the 3.9375 percent sales tax to the BOE.

#### **C. State Level Considerations**

The BOE is charged by the State Constitution, and by statute with, amongst other tasks, administering the state's sales and use tax, fuel, alcohol and tobacco taxes as well as collecting fees to fund numerous specific state programs. Successful administration of these tax and fee programs has resulted in the collection of approximately 35.6 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. The programs administered by the BOE produced \$53.7 billion in FY 2010-11 for education, public safety, transportation, housing, health services, social services, and natural resource management.

#### **D. Justification**

California imposes a statewide sales and use tax on the sale of tangible personal property in California. Effective January 1, 2013, the statewide rate is 7.5 percent. Under the Sales and Use Tax Program the BOE administers that program based upon the amounts reported by sellers (retailers) of sales of tangible personal property.

Pursuant to RTC Article 5 (commencing with section 6174), a 3.9375 percent sales tax is imposed upon sellers of Medi-Cal health care services at retail, measured by the gross receipts from the sale of those services. Every seller that is actively engaged in the retail sale of Medi-Cal health care services is required to register, report, and pay the tax to the BOE.

The additional funding for 1.25 positions for a two year limited-term will allow for the BOE to perform the necessary registration and administration of the new tax program because the Managed Care Organization Tax requires the BOE to develop and design new manual registration, return, and delinquency forms. This new tax also requires the BOE to design and develop a new manual tracking system for all required registered sellers. Furthermore, this new tax will require the BOE staff to review new reports associated with the new managed care accounts registered with the new program. Such new activity within the BOE will require staff to monitor the collection of the reported amounts manually. Finally, the revenue generated from the program will be identified and captured separately from the ordinary sales and use taxes administered by the BOE, which will require the BOE staff to ensure the payments and funds are allocated correctly and accurately so that the Children's Health and Human Services Special Fund is protected.

Currently, the sales and use tax program is paying for the costs to administer the Managed Care Organization Tax, whose revenues benefit the Children's Health and Human Services Special Fund. A

fund shift in spending authority from the General Fund to the Children's Health and Human Services Special Fund will need to take place.

#### **E. Outcomes and Accountability**

	<b>Projected Outcomes</b>	
	<b>2014-15</b>	<b>2015-16</b>
Estimated Revenue	\$360,000,000	\$360,000,000

#### **F. Analysis of All Feasible Alternatives**

**Alternative 1** – Provide funding of \$235,000 in FY 2014-15 and \$168,000 in FY 2015-16 for 1.25 two-year limited-term positions.

Alternative 1 requests resources to allow the BOE to administer the new tax program under its current sales and use tax program.

**Pros:**

- Provides the resources necessary to efficiently administer the statutorily mandated tax imposed upon sellers that are engaged in the retail sale of Medi-Cal health care services.
- Provides for adequate resources to sellers to whom the tax is imposed upon.
- Provides funding from the correct fund source to adequately protect the Children's Health and Human Services Special Fund.

**Cons:**

- Requires a budget augmentation.
- Requires a follow up budget change proposal (BCP) to make the positions permanent should the program be extended.

**Alternative 2** – Provide funding of \$235,000 in FY 2014-15 and \$168,000 in FY 2015-16 and ongoing for 1.25 permanent positions.

**Pros:**

- Provides the resources to efficiently administer the statutorily mandated tax imposed upon sellers that are engaged in the retail sale of Medi-Cal health care services.
- Provides for adequate resources to sellers to whom the tax is imposed upon.
- Provides funding from the correct fund source to adequately protect the Children's Health and Human Services Special Fund.
- Does not require a follow up BCP.

**Cons:**

- Requires a budget augmentation.
- Requires a negative BCP to remove staff should program not be extended.

**Alternative 3** - Deny the request.

**Pros:**

- Does not require a budget augmentation.

**Cons:**

- Does not provide a match of funding source to the revenue stream.

- Does not guarantee the Children's Health and Human Services Special Fund will be adequately protected.
- Does not guarantee the registration and remittance by sellers to whom the tax is imposed upon will be accurately reported and paid.

**G. Implementation Plan**

July 1, 2014 through June 30, 2015:

- Hire and train staff
- Evaluate, analyze and develop enhancements to the registration aspects of the program
- Monitor and maintain database for registered sellers under the program
- Evaluate, analyze and develop enhancements to the tax returns
- Process incoming tax returns
- Analyze and verify tax returns
- Issue delinquency notices to applicable sellers
- Issue deficiency determinations to sellers reporting inadequate amounts
- Review and audit records of registered sellers

**H. Supplemental Information** *(Check box(es) below and provide additional descriptions.)*

☒ None    ☐ Facility/Capital Costs    ☐ Equipment    ☐ Contracts    ☐ Other \_\_\_\_\_

**I. Recommendation**

**Alternative 1 is recommended.**

Alternative 1 allows the BOE to meet its statutory obligation to efficiently administer the Managed Care Organization Tax program.

## **Return Analysis Unit (RAU)**

The RAU is responsible for critical return/payment processing, maintenance, billing/adjustment and desk review activities for selected Sales and Use Tax programs. In addition, RAU performs desk audits/reviews on periodic returns. RAU investigates reporting discrepancies and prepares necessary determinations. RAU staff reviews corrected return information submitted by taxpayers and takes appropriate action. RAU provides advisory services to taxpayers by telephone and written correspondence. RAU administers the Sales and Use Tax Department Electronic Funds Transfer (EFT) program including registering taxpayers for the program, providing taxpayer assistance with making EFT payments, enforcing compliance and maintaining EFT payments. RAU staff performs return and/or payment maintenance associated with the Sales and Use Tax Department and other E-Services programs, such as electronic return filing and credit card payments.

### **0.25 Business Taxes Representative (BTR)**

The BTR will be responsible in reviewing the new EFT reports associated with the new managed care accounts registered with the program. In addition, since a new taxable activity type (TAT) will be established, it is estimated an additional five (5) new reports will be required for review. Also, since the new managed program will be excluded from the BOE's mainframe (administered manually), the BTR will be required to monitor the collection portion manually. In addition, since the revenue generated from the program will be captured in a separate fund, the BTR in RAU will manually ensure payments and funds are allocated accurately.

The table below provides the estimated workload for these positions.

<b>Workload Detail</b>				
<b>Classification:</b> Business Taxes Representative	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
EFT Reports Review/Reconciliation	H	0.45	288	109.4
Payment Maintenance	H	0.60	288	115.2
Return Maintenance	H	0.55	288	109.4
Total 334 hours				334
Total 0.25 Positions Requested (1,800 Hours/Position)				<b>0.256</b>

## **Administration**

### **1.0 Accounting Officer (Specialist)**

The Accounting Officer (Specialist) performs professional accounting work in the establishment, maintenance, research, and analysis of accounts and financial records for the Revenue Section. The Accounting Officer (Specialist) is responsible for maintaining accounting records for funds administered by the BOE; prepare, review and analyze financial reports, statements, accounts and records; maintain the General Ledgers; reconcile the fund and review expenditures against allotments. Considerable contacts are made with Board offices, the Budget Section, Cashiers, the State Controller's Office (SCO), the State Treasurer's Office (STO), the Bureau of State Audits and various State departments and members of the public.

The administration of this program will be mostly on a manual basis. This complicates the workload for the accounting branch in the areas of remittances and reconciliations. Based on our experience with the lumber fee, accounting for these single special funds separate from the core sales and use tax program is very labor intensive.

<b>Workload Detail</b>				
<b>Classification:</b> Accounting Officer (Specialist)	<b>Time Measure</b>		<b>On-going Activities</b>	
<b>Activity</b>	<b>M=Minutes H = Hours</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
Reconcile accounts with the SCO.	H	20	12	240
Compile fiscal year-end information and complete financial statements.	H	80	1	80
Post entries to the general ledger and accounting registers.	H	30	12	360
Process SCO journal entries.	H	10	12	120
Process revenue documents and fund adjustments from Cashiers.	H	10	12	120
Process refunds from the program area.	H	5	12	60
Balance revenue reports received from the Technology Services Department against EFT transactions reported by the STO.	H	10	12	120
Reconcile non-EFT and EFT deposits to bank statements.	H	10	12	120
Prepare transmittals.	H	20	12	240
Report revenue to control agencies (SCO, STO, Dept. of Finance (DOF), Bureau of State Audits) and BOE units.	H	10	12	120
Prepare monthly allocation of total payments, less expenditures, refunds, or adjustments for recipient funds.	H	10	12	120
Analyze fund cash daily/weekly for allocation or refund purposes.	H	5	12	60
Issue interim statements for management, other agencies, or special interest groups as needed.	H	5	12	60
Total 1820 hours				1820
Total 1.0 Positions Requested (1,800 Hours/Position)				<b>1.0</b>

**Fiscal Summary**  
(Dollars in thousands)

BCP No.	Proposal Title <b>Managed Care Organization Tax</b>	Program			
<b>Personal Services</b>		<b>Positions</b>		<b>Dollars</b>	
		<b>CY</b>	<b>BY</b>	<b>BY + 1</b>	
Total Salaries and Wages <sup>1</sup>		0.0	1.25	1.25	
Total Staff Benefits <sup>2</sup>					
<b>Distributed Administration</b>					
<b>Total Personal Services</b>		0.0	1.25	1.25	
<b>Operating Expenses and Equipment</b>					
General Expense					
Distributed Administration					
Printing					
Communications					
Postage					
Travel-In State					
Travel-Out of State					
Training					
Facilities Operations					
Utilities					
Consulting & Professional Services: Interdepartmental <sup>3</sup>					
Consulting & Professional Services: External <sup>3</sup>					
Data Center Services					
Information Technology					
Equipment <sup>3</sup>					
Other/Special Items of Expense: <sup>4</sup>					
<b>Total Operating Expenses and Equipment</b>					
<b>Total State Operations Expenditures</b>					
<b>Fund Source</b>	<b>Item Number</b>				
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>		
General Fund	0860	001	0001		
Special Funds <sup>5</sup>	0860	001	3156		
Federal Funds					
Other Funds (Specify)					
Reimbursements					
<b>Total Local Assistance Expenditures</b>					
<b>Fund Source</b>	<b>Item Number</b>				
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>		
General Fund					
Special Funds <sup>5</sup>					
Federal Funds					
Other Funds (Specify)					
Reimbursements					
<b>Grand Total, State Operations and Local Assistance</b>					

<sup>1</sup> Itemize positions by classification on the Personal Services Detail worksheet.

<sup>2</sup> Provide benefit detail on the Personal Services Detail worksheet.

<sup>3</sup> Provide list on the Supplemental Information worksheet.

<sup>4</sup> Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.

<sup>5</sup> Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

**Personal Services Detail**  
(Whole dollars)

BCP No.	Proposal Title <b>Managed Care Organization Tax</b>
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**Salaries and Wages Detail**

Classification <sup>1 2 a/</sup>	Positions			Salary Range	Dollars		
	CY	BY	BY + 1		CY	BY	BY + 1
<b><u>Sales and Use Tax Department</u></b>					\$0	\$0	\$0
Business Taxes Representative		0.25	0.25	\$47,495	\$0	\$11,874	\$11,874
					\$0	\$0	\$0
<b><u>Administration Department</u></b>					\$0	\$0	\$0
Accounting Officer		1.0	1.0	\$51,912	\$0	\$51,912	\$51,912
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
					\$0	\$0	\$0
Blanket Funds:							
Overtime					0	0	0
Temporary Help	0.0	0.0	0.0		0	0	0
<b>Total Salaries and Wages <sup>3</sup></b>	0.0	1.25	1.25		\$0	\$63,786	\$63,786
<b>Staff Benefits Detail</b>	<b>CY</b>	<b>BY</b>	<b>BY + 1</b>				
OASDI		4,880	4,880				
Health/Dental/Vision Insurance		10,135	10,135				
Retirement		13,078	13,078				
Miscellaneous							
Workers' Compensation		580	580				
Industrial Disability Leave		61	61				
Non-Industrial Disability Leave		26	26				
Unemployment Insurance		51	51				
Other:		191	191				
<b>Total Staff Benefits <sup>3</sup></b>	\$0	\$29,002	\$29,002				
<b>Grand Total, Personal Services</b>	\$0	\$92,788	\$92,788				

<sup>1</sup> Use standard abbreviations per the Salaries and Wages Supplement. Show any effective date or limited-term expiration date in parentheses if the position is not proposed for a full year or is not permanent, e.g. (exp 6-30-13) or (eff 1-1-13)

**Note: Information provided should appear in the same format as it would on the Changes in Authorized Positions.**

<sup>2</sup> If multiple programs require positions, please include a subheading under the classification section to identify positions by program/element.

<sup>3</sup> Totals must be rounded to the nearest thousand dollars before posting to the Fiscal Summary.



**Special Fund Detail**  
(Dollars in thousands)

[illegible]

Special Fund Title	Item Number			Dollars		
	Org	Ref	Fund	CY	BY	BY + 1
<b>Total Special Funds - Local Assistance</b> <sup>2</sup>						

<sup>1</sup> Total must tie to "various" funds identified for State Operations, Special Funds in the Fiscal Summary. Add rows if necessary.

<sup>2</sup> Total must tie to "various" funds identified for Local Assistance, Special Funds in the Fiscal Summary.